HOW FAR CAN MARKET GO-AFTER ELECTION? ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

NOVEMBER 5, 1960 85 CENTS

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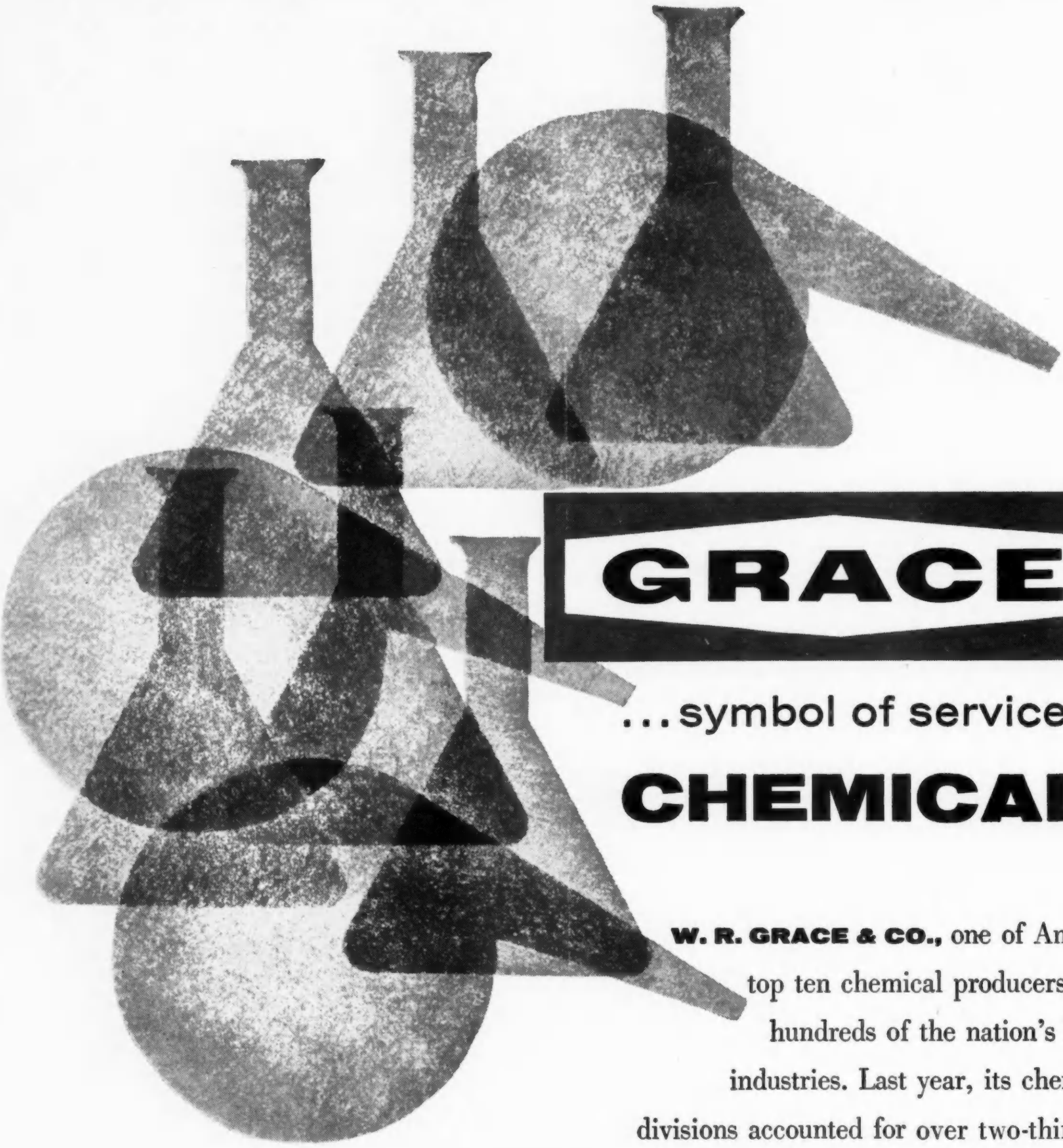

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Map and chart on pages 176 and 177—Courtesy of British Petroleum Co. Ltd.

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Telephone service has never been so fast, convenient and dependable as it is today

...and it's going to be better!

Two words—*growth and change*—describe major trends in the Bell telephone business. There is more of every kind of service for more people. And more and more new things are coming along all the time.

Direct Distance Dialing is bringing a new era of speed and convenience in Long Distance calling.

Nearly 24,000,000 customers can now dial Long Distance calls direct to 39,000,000 telephone numbers in the United States and Canada.

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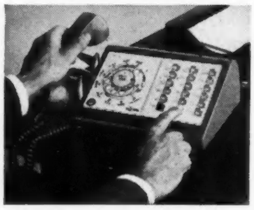
An entirely new era in communications for business is being opened up by the Bell System's Data-Phone service. It enables electronic business machines to "talk" to each other over regular telephone lines. Some day there may be more of those calls than calls between people.

Those are some of the new services. Just a few of the other newer things are shown on the right.

There's much more to come . . . from research and development, from the investment of millions of dollars of new capital, and from the Bell System's never-ending desire to give you the best and the most telephone service in the world.



CALL DIRECTOR TELEPHONE

With the touch of a button you can connect other office telephones, set up interoffice conference calls, add other office extensions to incoming calls. Two models. 18 and 30 push buttons. Many thousands already in service.

THE PRINCESS

It's little! It's lovely! It lights! A new compact extension telephone for any room in the house. A tremendous success all over the country. Available in white, beige, pink, blue and turquoise.

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One of the newest Bell System services. A person away from the telephone hears a tone signal (sent from the telephone exchange) on a pocket radio receiver. Alerts him to call his home or office to get a message. Now available in 14 major cities.

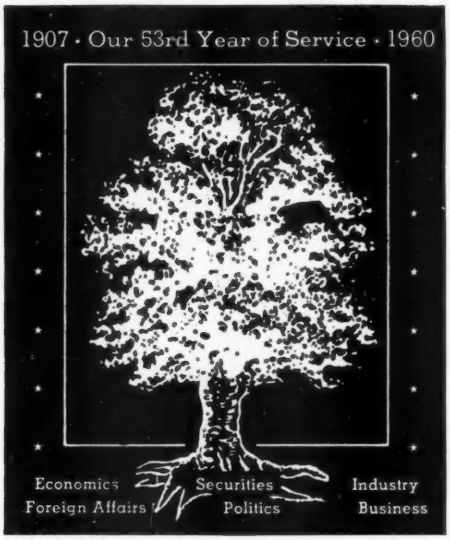
HOME INTERPHONE

Lets you call any other room in the house that has a phone. Or switch outside calls to another phone. Also lets you answer the door from any phone. Microphone in telephone and speaker on wall beside each telephone enable person in other room to talk back without lifting receiver. Will be available nationally next year.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

AN HISTORIC DECISION . . . When the citizens of our country go to the polls on November 8th to vote for the country's leadership during the next four critical years, they will also be determining the course of their personal affairs.

The hullabaloo of the campaign is for the unthinking and immature. We are citizens whose responsibilities include the welfare of the great mass of people of this country if we ourselves are to survive. This is the crux of the matter today. And to elect a man not qualified by judgment, character and philosophy would be dangerous indeed.

That is why we were rather shocked to have the New York Times come out for Senator Kennedy, for it appeared from the almost half-hearted approach in their editorial of Thursday, that they were not entirely sold on the idea themselves.

So far Senator Kennedy has shown an emotional instability in practically all matters under discussion, and the Democratic platform promises heavy expenditures in many areas where budget specialists have figured it will cost the Government an extra $15 billion per year, which would mean higher taxes or an increase in the already overwhelming Government debt that would deal a sharp blow to the standard of living of our people.

Take the matter of foreign affairs too, where only the day before, James Reston's column said, **"Senator Kennedy made what was probably his worst blunder of the campaign. His statement this week on Cuba, publicly calling for Government aid to overthrow Castro, is a clear violation of the inter-American treaty prohibition against intervention in the internal affairs of the hemisphere republics."**

And, when the Times suggested that they believed Senator Kennedy would be in a better position to control Congress since it is largely Democratic,—**it sounded more like an apology for their stand, since no one is more aware than they are of the fact that the "rump" session clearly proved that Mr. Kennedy could not control Congress although his running mate, Johnson is majority leader and Sam Rayburn one of the most powerful men in the Democratic party.**

What then decided the New York Times to come out for Kennedy who has throughout demonstrated his immaturity—his readiness to make flip, off-the-cuff remarks, switch positions on both sides of a question when it suited his purpose,—approaching serious matters like a sophomore, rather than with the reasoning of a mature thinker.

We have always had a great deal of respect for the New York Times and we find their editorial attitude a very puzzling one, though for a long time their news items seemed to be slanted toward Kennedy, even to the extent of supporting the furore re-

(Please turn to page 212)

We call the attention to the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

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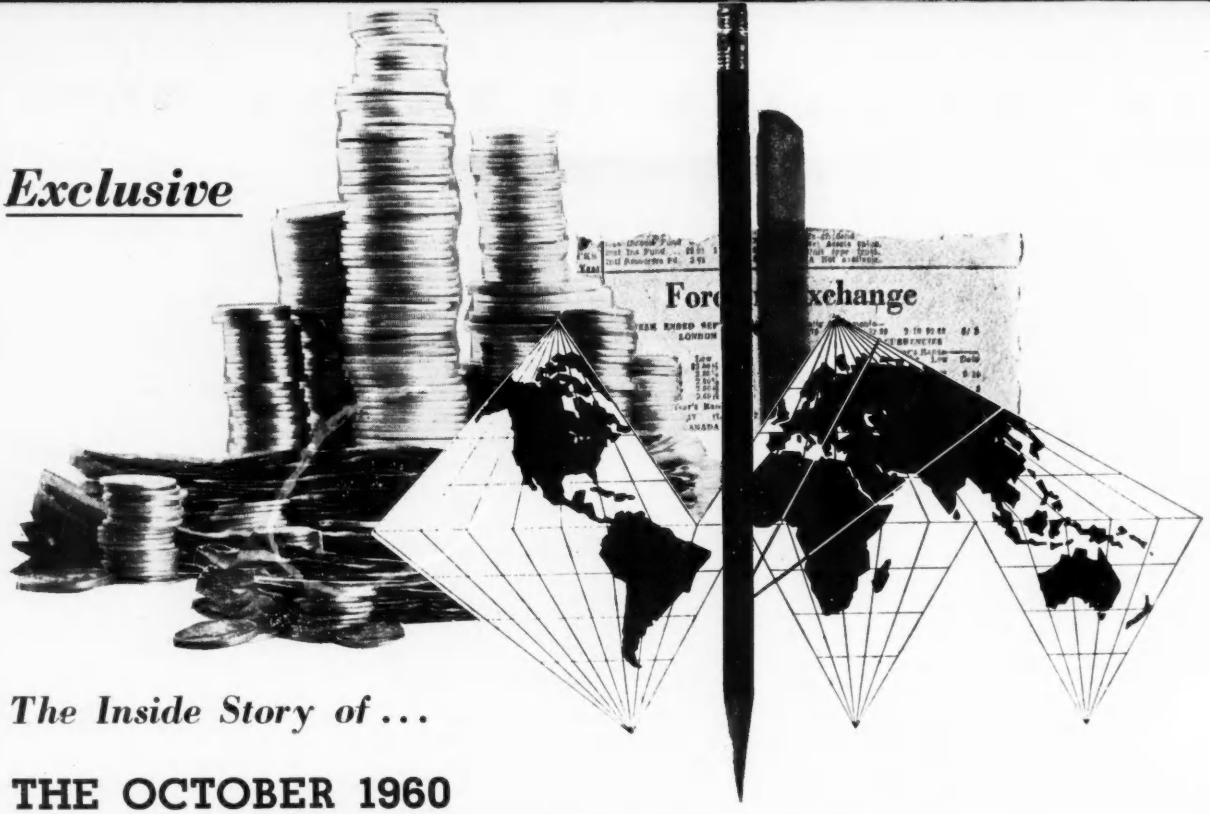


The Inside Story of . . .

THE OCTOBER 1960 GOLD RUSH AGAINST THE DOLLAR

By JACK BAME

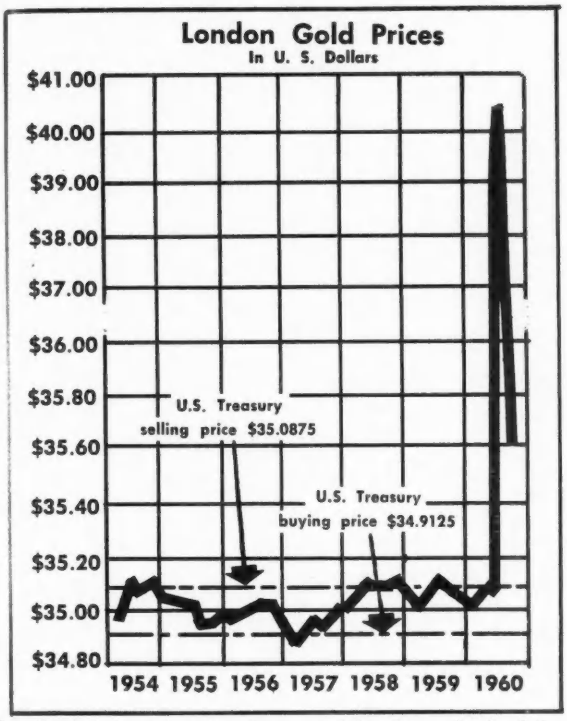
► What happened around the world — and why . . . significance to the U.S. — after the Election

INTERNATIONAL gold market activities, usually relegated to statistical entries on a few leading financial pages, if mentioned at all, made front page news in the world press—and on radio and television—during the third week in October. A hectic speculation against the Dollar, from Mexico City to Hong Kong, reached a feverish peak on the 20th of the month. On that date, the price of gold in London spurted to as much as $41.00 per ounce, its highest level since that market was re-opened for non-residents in 1954. Compared to the official U.S. peg of $35.0875, the price at which the American Treasury freely sells to official foreign purchasers, the $41.00 quotation represented a 16¾% discount on the dollar, at least in terms of gold. Such a situation, whatever its nature and whether rational or not, has some degree of significance. The latter can be analyzed from a number of angles, which should be projected against the basic position and problems of the dollar today; they are 1) the more immediate causes—both active and passive—for the speculative flurry 2) the nature of the speculation itself, 3) the effects of the gambling against the Dollar and finally 4) what is likely to happen in the short-term future—underscoring the *likely.*

The Basic Position and Problems of the Dollar have often been enumerated and analyzed, especially in the past year, both in this publication and many others. A lengthy discussion of the situation is therefore unnecessary, but the dominating factors cannot be repeated often enough. The "chronic" post-war dollar shortage has disappeared and a dollar surplus now exists, due to the remarkable economic recovery of Western Europe and Japan and through the cooperative efforts of these governments and the U.S. itself. *We have a negative balance of payments, brought about mainly by substantial foreign economic and military aid expenditures.*

Despite a marked improvement in American exports thus far in 1960, the imbalance is estimated at a continued high figure of between $2 and $3 billion. Such a drain is too much of a burden for us to carry for any prolonged period without some undesirable action having to be taken. This remains a constant source of concern not only to Washington but to our overseas partners, who could alleviate some of our and their worries by assuming more of the global aid load. Short term foreign dollar assets are now larger than our monetary gold stock by about $2 billion. **This fact does not in itself represent any actual danger for the dollar but is a reflection of our continued negative payments balance and the outflow of funds from the U.S. It creates a theoretical "mortgage" against the Dollar, however, and at least part of the more than $20 billion of such foreign owned U.S. short term assets would be withdrawn and converted into gold if a real loss of dollar confidence should occur.**

We Suffer From Our Low Interest Rates. Related to this problem is the recognized differential in the



level of interest rates here and in the principal foreign financial centers. This spread has led and will continue to lead to a shift of money, mainly individual funds and those of private international companies which are most sensitive to interest rate disparities, from the U.S. to England and West Germany, for example.

The U.S. economic situation, whether characterized as recessionary, stagnant or "pausing on an economic plateau," is another source of apprehension, especially as embodied by considerable unused productive capacity, sticky unemployment at high levels and a psychologically important declining market.

On top of all this, 1960 Presidential election speculations bring out all varieties of real and imagined projections of a future course of events ranging from miraculous financial cures to complete fiscal abandon—neither of which is likely to correspond to facts.

The October Speculative Flurry had its immediate beginnings on Monday, October 17, when the price of gold in London rose to $35.25½, above the approximate $35.25 limit at which a profit can theoretically be made by official foreign buying of gold from the U.S. (at $35.0875) and shipping it to London for resale. The following day, the price rose 8½ cents to $35.34, subsequently jumping on Wednesday to $35.60. *Concurrent with these developments, the gold price in Paris was rising as Frenchmen, plagued by new political turmoil and Algerian woes, began their perennial trek towards gold buying as worries about the future of the franc mounted.* It became readily evident that the rise in London was not due to Central Bank buying, as it would make no sense for them to pay such a high price when they could buy gold at $35.08¾ from the U.S. **The demand was coming from private continental sources, especially from Swiss bankers and dealers. But it was not and still is not known for whom the Swiss intermediaries were acting.**

On Thursday, the real gold rush burst out, as the gold price in London rocketed by over $5 per ounce, a historic record for that market, and was quoted at as high as $41. Prices rose in almost the same proportion in Toronto, Zurich, Frankfurt and Rome and other centers. Activity became so hectic in Hong Kong and Mexico City, with trading and demand for gold so intense, that gold sale operations were officially suspended. Reports from Johannesburg described stock exchange trading of gold issues there as "bedlam." Finally, on Friday, the London gold price dropped back to about $36.50 per ounce and at least one gold "crisis" was over, for the time being, and we could take an initial count relating to the causes, nature and effects of this initial speculative splurge on a raising of the U.S. price of gold or a dollar devaluation.

The Immediate Causes of the "Gold Bubble" can only partially be explained sensibly, and are more readily adaptable to—and here's that word again—speculation. Here are some of the probable—or possible—factors:

► **A limited amount of gold was available for sale in the "thin" London market, as the U.S. did not encourage or direct the Central Banks to buy enough gold from the American Treasury to meet the market demand and thus drive the price down. Therefore, a relatively small but concentrated private demand for gold in London could be able to cause an out-of-proportion rise in the gold quotation there.**

► **The Soviet Union has not been offering gold on the market, further reducing the normal supply.**

► **Swiss bankers were reported to have advised their foreign clients to convert their currency holdings into gold, as new rulings in that country officially allow no interest to be paid on foreign fund deposits there, in fact imposing a 1% commission charge on such accounts. The Swiss bankers on the other hand said that London sources were responsible.**

► **The apparent "vicious circle" of rumor and counter-rumor undoubtedly included, in its gold-buying path, some private American sources on the speculative bandwagon.**

► **Rising French demand for gold was responsible for at least some of the London purchases.**

► **Declining European stock markets and the thought that the boom in that sector had perhaps passed its peak is said to have been a cause for some investing of the proceeds of security sales in gold.**

► **It is really difficult to pin down just why any of the above would be responsible for an immediate one day jump of over $5 in the London gold price, despite any explanations, unless—and this is purely speculative on this writer's part—a well-timed and concerted buying action had been carried out. This could have been effected by some private speculators or groups, representatives acting for Soviet bloc clients or some other special interest group.**

The Effects of the Gold Rush might not as yet be fully discernible. But *(Please turn to page 201)*

How Far Can This Market Go After Election?

Basis for anything better than trading-range rallies is not apparent, although we can expect a temporary emotional response of relief if Nixon is elected. But should Kennedy be the victor, the market is momentarily bound to reflect keen disappointment, followed by a period of reappraisal of inflationary danger underlying a possible devaluation of the dollar. After which, primary emphasis must still be put on any further deterioration in business prospects and the shrinkage in corporate earnings. A conservative, carefully selected investment policy remains advisable awaiting clarification of the steps to be taken and the areas to be most affected by the policy of the new government.

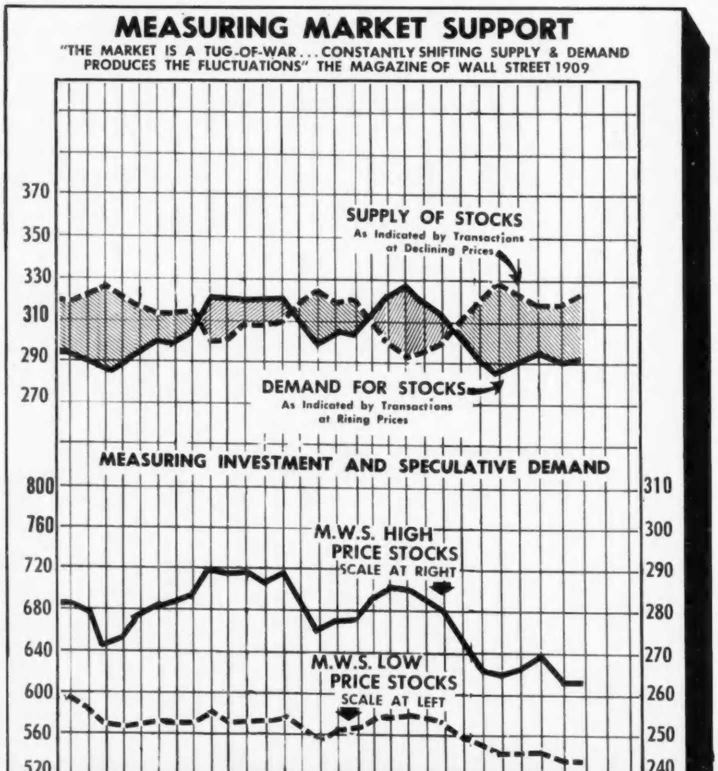
By A. T. MILLER

FOLLOWING a fast sell-off into the forepart of last week, the market met support, with the daily averages in approximate vicinity of the late-Sepember lows, thus cancelling all of the recent improvement to the mid-October rally level.

Obviously of technical character, with the business news remaining mostly adverse, there was a brisk rebound, amounting to 9.13 points for the industrial average, in the Wednesday trading session. Aided by subsequent announcement of further credit-easing moves by the Federal Reserve, there was an added Thursday gain of 5.77 points, but over half of that was given up in the final trading session, reflecting profit taking and reduced demand among investors and traders.

So we go to press with an indeterminate market, in which the only recent spurt in trading volume was seen as prices fell to the poorest level of the past fortnight in the Tuesday, October 25 session; and with the Industrial average standing a little under the half-way point of its less than 5% range from the October 14 top to the latest low.

News of official adjustment of reserve requirements, to add to the money supply and to bank lending power, gave some stimulus to the bond market, mainly in institutional demand for previously unsold portions of new issues in the hands of underwriters.



We have, of course, been in a credit-easing trend for some time, and it will go further so long as demand for credit is subdued and the authorities remain concerned with unpromising prospects for business and employment. It cannot be considered a positively bullish factor for economic activity or the market at this stage.

Near-Term Trend Conjectural

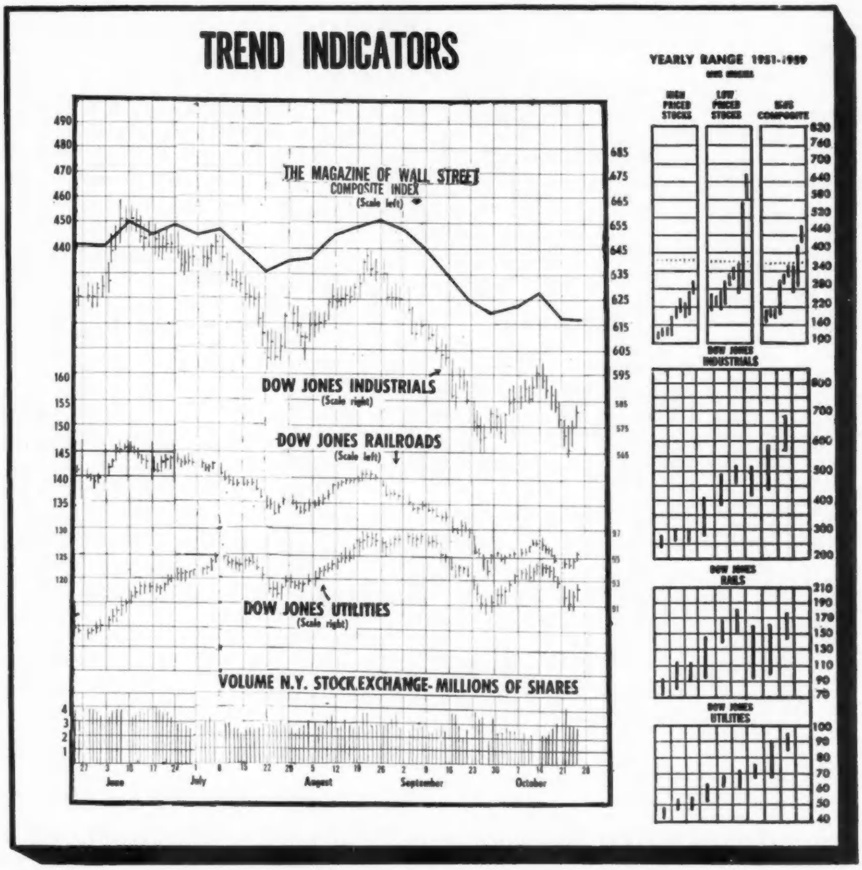
It is encouraging that the market did not break importantly, following minor violation for a brief time of the September 28 low by the Industrial average. But it does not prove much, if anything; and neither does the subsequent rally.

Much was made of the fact that the low point recorded last March held on tests seen in May and July, thus becoming a "triple low." But the gain on each subsequent rally was progressively smaller, and in due time the March-May-July support level was, of course, decisively penetrated. We do not rule out the possibility of some further short-term rally here, although it looks doubtful at the moment and is certainly conjectural. In any event, it would take some weeks of zig-zag upward tendencies in the averages to suggest a reversal of trend—usually indicated before sustained advance has gone far—

based on a real shift in the supply-demand balance. We do not see evidence that investors are yet ready to veer generally from caution to medium-term optimism. It takes the latter, as well as the usual "long-pull confidence", to put stocks up much.

The principal technical indicators have been sounding notes of caution for some time and still are. But neither technical methods nor appraisal of fundamentals can have much prophetic value in regard to short-swing moves in a market of swift and erratic gyrations, such as we have had recently.

In about two months, not counting last week's two-day spurt of nearly 15 points, three completed swings by the Industrial average footed up to a total "travel mileage", materially exceeding the whole net decline from the high of early January to the late-September low!



They were roughly as follows: 72 points down from the August rally level in about five weeks, 27 points up in 12 trading sessions to October 14, and 30 points down in only seven sessions to October 25. Gyrations on this order offer fleeting possibilities only to the nimblest in-and-out traders, few of whom make and keep money.

There is now mounting interest, especially in the financial community, in the outcome of the imminent Presidental election—after a campaign in which the weakened international status of the dollar got a minimum of attention; and in which Kennedy has said very little about the over-all cost of his proposed programs and how he expects to finance them.

Another New Deal?

The opinion-sampling polls indicate a fairly close division of popular vote, with an edge for Kennedy. They can err, as proven when they indicated an easy Dewey victory in 1948. Kennedy might win with a commanding margin in electoral vote; so might Nixon; or he might just "squeak in". Unlike the 1948 upset, Kennedy's election would not be a complete surprise, but uncertainty regarding his ideas would still produce an emotional reaction.

Elation over a Nixon victory would express immediate confidence in the future, and encourage the constructive effort needed to stimulate our economy under the present business and market environment. Kennedy is, of course, Left of Nixon and further Left of Eisenhower, but how far he intends to go and whether he plans to revert to the New Deal of Roosevelt is yet to be disclosed.

We can be sure there will be vociferous demands from those among his more radical supporters who do not recognize the changes that have taken place since Roosevelt came to power. The circumstances are different. The labor unions are not powerless as in 1932, but too powerful. There are no "forgotten" people, including farmers. Social Security and unemployment benefits are established facts. We have modernized capitalism" under a Welfare State. The controversy will be over extension mainly of existing Welfare State concepts, and the financing means.

Kennedy would not have an entirely free hand. But will he recognize the limitations imposed by our deficit in international payments and the gold drain; the Federal Reserve's independence, which only Congress can take away; and the "veto power" on some matters by the coalition of conservative Southern Democrats and Republicans in Congress?

Turning to business, the charges and counter-charges in the election campaign regarding the vitality of our economy have had a most depressing effect and tended to create hesitancy and disturb forward planning. At the moment, trade remains sluggish, with housing in a slump. Capital outlays point downward. Only defense contracts accounted for modest September gain in new orders.

Viewing the election and the business trend, Europeans are sellers of U.S. stocks on balance. An important market rise would indeed be a surprise. It is doubtful that the last downside test has been seen. —Monday, October 31.

WHERE DO WE STAND TODAY?

◆ ***A careful reappraisal of the forces that make for recession or deep depression***

By PAUL J. MAYNARD

- **Comparing 1960 basic indicators . . . GNP — total personal income — industrial production — plant expansion — government expenditures — retail sales — with all the years back to 1950 — as a basis for rationalizing our position**
- **Weighing favorable and unfavorable factors — confusing economic theories — psychological factors that intensify apprehension**
- **Depression? — Recession? — what is the answer?**

AS our nation's economic and business structure has increased in complexity, the task of determining the over-all direction and speed of its movements has become more difficult. At the same time that complexities have increased, the need for more up-to-the-minute statistical information also has become greater. While considerable progress has been made in recent years in improving the amount of information available, its accuracy and its timeliness, the task of defining precisely the state of our economy at a given moment continues to be difficult.

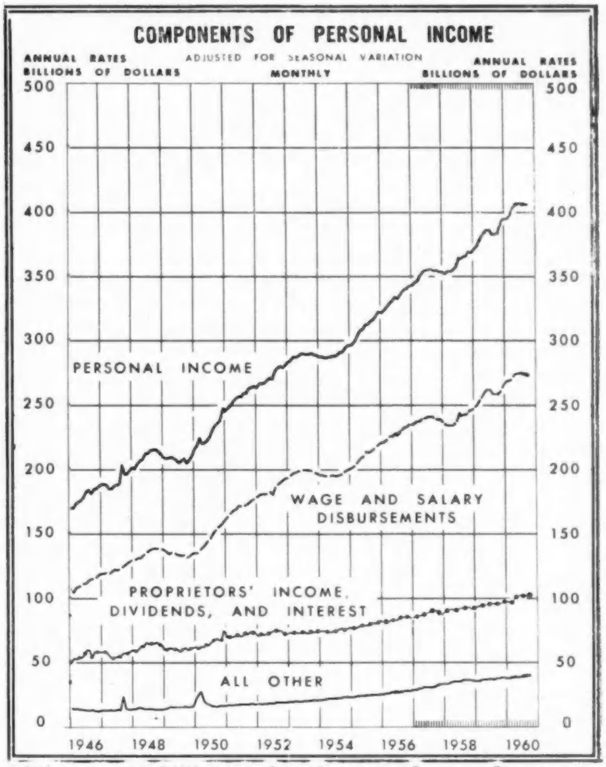
The present situation, characterized as it is by a number of cross currents in our economic and business picture, affords a good example of the inadequacy of broad descriptive terms in delineating the condition of the nation's business. Today some of the generally accepted barometers of business point downward, some suggest a side-wise movement and a few indicate a tendency toward improvement. Thus, some economists are saying that we are now

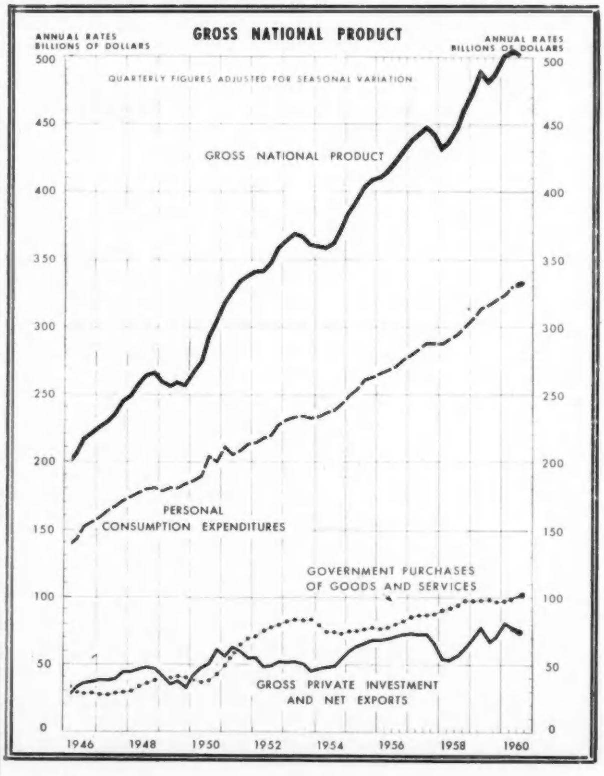
in a period of business recession, some call it a period of hesitancy or of temporary adjustment and a few see a return to prosperity within the near future. Actually, in order to describe the present state of the economy of the United States it is necessary to be selective rather than sweeping and to be relative rather than absolute in terminology.

During the past two decades we have had no depressions, if that term is defined as a deep and prolonged downturn of most of the segments of our economy. So many changes have taken place in our economy since the depression of the 1930's that a recurrence of a set-back of that magnitude to our economy is considered by even the most pessimistic to be highly unlikely. In addition to such built-in stabilizers as unemployment insurance, guarantee of bank deposits, pension plans and old age insurance and greater liquidity and strength in our banking system, we have the acceptance of Government responsibility for keeping business and employment on an even keel under the Employment Act of 1946. The broader base of consumer income and purchasing power also is an important contributor to increased strength and stability in our economy. These factors, of course, have not ruled out recessions or rolling readjustments. The latter term is used to connote relatively brief set-backs in certain areas of business at the same time that other parts of the economy may be moving sideways or upward.

In capsule form, some of the principal cross currents influencing the present state of business in the United States are outlined following:

► **Gross national product was off a bit in the third quarter but total personal income reached all-time record high levels. In the third quarter of 1960, gross national product was at an annual rate of $503 billion, or $2 billion under the record second quarter level of $505 billion. This compares with $482 billion in 1959 and $285 billion in 1950.** Total personal income in September edged up to a new high annual rate of $408.4 billion which compares with $383 billion in 1959 and $228 billion in 1950.





► The **Federal Reserve Board's Index of Industrial Production** (1957=100) dropped off this year from a high of 111 in January to 108 in August and 107 in September. While this is still higher than the 105 index for 1959 and the 93 figure for 1958, the decline in recent months is somewhat disconcerting in that it suggests a slowing up in the rate of industrial activity.

► **Total automobile sales** for 1960 are estimated at between 6,600,000 and 6,700,000 cars. This represents a good gain from the 6,200,000 figure for 1959. While it is under the peak 7,410,000 figure for total automobile sales in 1955, sales for 1960 are the second best in the history of the business.

► **The steel industry's third quarter average production rate** of 55% of capacity represents a depressed level of activity in this important and basic industry. In appraising the position of the steel industry, however, it is essential to keep two factors in mind. In the first place, the long steel strike which ended in January of 1960 created many distortions arising both from inventory accumulations prior to the strike, inventory depletion and reaccumulation at the end of the strike and psychological attitudes of buyers of steel products after the strike was over. **The second factor is the enlarged production capacity of the country's steel mills. Such capacity has been built up from 100 million ingot tons in 1950 to a present level of about 150 million tons. Thus, when we speak of an estimate of total**

steel ingot production of 100 million to 105 million tons this year, we are talking about an annual average of 70% of current capacity, and 100% or more of 1950 capacity.

Total estimated steel production in 1960 will be 10% to 15% below the 1955-1957 record average. Steel consumers, however, have been using more steel than has been produced. As a result, steel inventories have been reduced to a level where further liquidation is not looked for. In fact, the prospects favor a gradual increase in the steel production rate.

► With respect to **employment and unemployment,** the situation this year has had some favorable as well as certain unfavorable aspects. On the plus side is the fact that total civilian employment this year reached an all-time high of 68.7 million in July. This was over a million higher than in July 1959 when the corresponding figure was 67.6 million. The negative side of this situation lies in the fact that the seasonally adjusted percentage of unemployed, related to the total civilian labor force had increased to 5.9% in August 1960 versus 5.4% in August 1959. The rise in the percentage came about through a swelling of the total labor force during the summer months. *What the situation will be during the balance of the year will depend on how well business conditions hold up in the final quarter.*

Governmental Expenditures For Goods and Services
(billions of dollars)

Year	Total	Federal Total	Defense	State & Local
1960 (3rd Quarter)	100.5	52.5	*	48.0
1960 2nd. Quarter)	98.6	51.7	44.7	46.9
1960 1st. Quarter	97.5	51.8	44.9	45.7
1959	97.1	53.3	46.0	43.9
1958	93.5	52.6	44.8	40.8
1957	86.5	49.7	44.4	36.8
1956	79.0	45.7	40.4	33.3
1955	75.6	45.3	39.1	30.3
1954	75.3	47.5	41.2	27.7
1953	82.8	58.0	49.3	24.9
1952	76.0	52.9	46.4	23.2
1951	60.5	38.8	33.9	21.7
1950	39.0	19.3	14.3	19.7

*—Not available.

► **Business plant and equipment expenditures in 1960 are estimated at approximately $36.4 billion, or 12% above the 1959 figure of $32.5 billion.** While the total for 1960 is relatively high, ranking second only to the record $37 billion of business outlays for new plant and equipment in 1957, some disappointment has been expressed over the fact that 1960 is not establishing a new record in this department. Although all major industrial groups now expect capital outlays in the second half to equal or exceed those of the first half of 1960, most groups have cut back their second half capital expenditure programs from the levels anticipated last spring. This is one of the most sensitive and one of the most significant factors in our economy. If new plant and equipment expenditures taper off, business conditions may be headed for some degree of retrenchment.

► **Government expenditures** for goods and services, now at the high level of approximately $100 billion, equal about 20% of the gross national product. These expenditures by both the local and Federal Government have been rising steadily in every year since the end of World War II, and are heading even higher. Starting July 1, 1960 1.6 million Federal employees received a 7½% pay increase, thereby increasing salary and wage payments by about $740 million per year. On June 27, the Secretary of Commerce anounced that the states would be authorized to contract for $1.4 billion of new highway work under the Federal Aid Program in the July-September quarter. Another sector in which Federal spending is rising is in defense procurement. Defense orders rose in the second quarter. **On July 7, the president signed a bill appropriating $700 million more for defense than he requested, bringing the total of new appropriations to $40 billion. At the same time, the states and local political subdivisions coninue to expand their outlays for new buildings of all types, including state office buildings, hospitals, schools, bridges, sewage system, roads, etc. Such expenditures by local governments are currently at an annual rate of about $48 billion, up from $44 billion in 1959 and from about $20 billion in 1950.**

A summary of the aforementioned principal factors influencing the outlook for the nation's economy would conclude that the present level of activity is high and that there are both positive and negative forces at work. In other words, the term "rolling readjustment" appears to fit the situation more aptly than any other.

What's the Answer?

The three factors which will influence most importantly the near-term future direction in which business and economic conditions in the nation move are: **the level and trend of consumer expenditures, the business outlays for new plant and equipment and government expenditures.**

Decisions of consumers and businesses account for about 80% of total spending for goods and services. With respect to consumers, the fact that total personal income has advanced to new peak levels this year indicates that the means are available to consumers to spend if they elect to do so. **The rise in total personal income has come chiefly from increases in wage and salary disbursements and other labor income from a level of about $269 billion in August 1959 to $286 billion in August of this year. However, an additional factor contributing to total personal income this year is the stimulus to farm income arising from the bumper yields of wheat and other farm crops currently being harvested.**

Total production of crops this year is expected to attain a new high with an output index of 121% of the 1947-1949 average. Farm income rose from an anual rate of $10.8 billion in the first quarter of 1960 to $11.8 billion in the second quarter, and is currently moving higher. Farm equipment makers and other businessmen who sell in the rural market are convinced that farm income will continue to climb.

● **Consumer expenditures** fall under three general categories: Non-durable goods, services and durable goods. ● Retail sales of non-durable goods have held up well this year. ● Sales of all retail stores in the July-August 1960 period *(Please turn to page 207)*

PART ONE

A SOUND APPROACH TO 1960 THIRD QUARTER REPORTS

by WARD GATES

THIRD quarter earnings reports are confirming advance indications that they would fall below the strike-ridden third quarter of a year ago. They tell an almost universal tale of weakening prices, continued high costs and squeezed profit margins. But they provide little ammunition for the pessimists who would have us believe that the American economy has lost its vitality and is about to fall off the brink into deep recession.

For, despite an occasional exception, sales of American corporations continued on an extremely high level in the third period, and the flow of goods and services actually moving into the hands of consumers reached an all-time high.

Investors, of course, must be concerned with corporate profitability as the ultimate source of dividend income, but the present lower earnings cannot by themselves be used to conclude that the economy is in serious trouble. A short summation of basic economic data should, in fact, serve to underscore the vitality of the economy.

Record Level of Consumer Income

Consumer income, supported by the highest level of employment in history, is at an all-time high and shows no signs of abating. True, some changes in consumer spending behavior are causing dislocations, but not in any abnormal measure. Obviously, the consumer is temporarily "bought-up" in durable goods, but his spending for soft goods and services is higher than ever.

Moreover, even his spending on durable goods requires closer scrutiny than the mere recitation of profit margins for the manufacturers. The fact is that 1960 will be the second best year on record for the sale of both automobiles and large appliances. That the consumer is not absorbing all that is produced is the result more of a miscalculation on the part of the producers than of a sharp decline in demand by the users.

Further evidence of the high level of economic activity, in addition to automotive and appliance output is found even in the steel industry. Headlines play up the fact that operations have been running at just above 50% of capacity for many months, but few point out that capacity has increased so enormously that even at these levels the industry will turn out 106 million tons of steel this year, or

more than in any previous year except the record 1955.

The recently reported small decline in Gross National Product, from an annual rate of $505 billion in the second quarter to $503 billion in the third is also deceptive as an indication of decrepitude in the economy. All through the post war era inventory adjustments that have caused fluctuations in the rate of GNP have been commonplace. One is happening again today, but so far it has made less of a dent in overall economic activity than either the 1953 or the 1957 downturns in business.

Corporate earnings reports in the recently completed third quarter must be viewed within this background, if investors are to apply intelligent analysis to the results. Profits are always subject to more violent fluctuations than overall economic activity: they fall off sharply when business slows down modestly, and rally strongly when an upturn develops.

Major Companies in Squeeze

Possibly the best indication of this "leverage" is the third quarter experience of several major companies. **Du pont** was particularly hard hit in the quarter, with net income slumping to the lowest point for any reporting period in two years. Yet Du pont was more a victim of weakening prices than any sharp decline in demand for its products. In fact, sales volume in the nine months was actually one percent ahead of a year ago although third quarter results dropped about two percent. But most significant is the fact that the *physical volume of goods shipped was actually four percent ahead of last year*. Lower prices for a broad line of products account for the lower dollar sales figures.

For a company the size of Dupont this kind of performance within an economy operating at high levels is not overly serious. The initial impact of rigid costs and lower prices squeezes profit margins. But in the long run the lower prices should lead to increasing volume and an eventual recovery in profits.

So far this year Du pont has earned $6.28 per share against $6.90 in the first nine months of last year. The third quarter netted $1.96, a 14% decline from the $2.29 earned in last year's third period. Those who still fear that Du pont suffered terribly in the third quarter should realize that $1.96 per share means that the company earned over $90 million after taxes.

Ford Motor Co., the first of the major car makers to report for the third quarter, offers some similarities to the Du pont picture. Again, physical volume continued to advance, but prices obtained for products were low enough to cause a decline in sales and earnings figures. Ford's unit sales of cars and trucks in the third quarter were actually 3.5% ahead of last year. The higher percentage of compact cars, however, reduced the overall dollar figures. The reason for the decline in profit margins for compact cars is fairly obvious and will hit the other car makers with comparable impact. In brief, the costs savings in materials are not enough to offset the lower selling prices that must prevail for these cars. Other costs, such as labor and overhead are nearly as high as for conventional cars. Hence, the unpleasant squeeze.

Ford, nevertheless, showed enough confidence of its ability to maintain high profits that it has raised the dividend on the common shares despite the fact that earnings receded slightly, to 93¢ per share from 97¢ in the same period of 1959.

A Common Experience

Other major companies had similar experiences. **Union Carbide, Allied Chemical, RCA,** and **Westinghouse** all enjoyed higher sales in the most recent quarter, but suffered a simultaneous profit margin squeeze that produced lower net income.

Union Carbide, of course, is suffering from the steel industry's slowdown. The high tonnage output of steel will help Carbide in the long run, but at the moment the steel producers feel no urgency to order any more equipment than they require in their current operations. Hence, the company was hardly any better off this year than it was in the 1959 strike period.

Radio Corporation can attribute its earnings decline to a different set of circumstances. Sales, at $354 million, were well ahead of the $340 million a year ago, but the company's continuing heavy investment in computers and electronics components is taking its toll on earnings. Thus, RCA appears to be suffering more from the growing pains of getting a new line of products ready than from any serious disruptions in its markets. As a matter of fact, RCA is rapidly becoming second only to IBM as a producer of computers and large electronic devices, suggesting that profit margins may begin to rise once a high volume of shipments become an every-day occurrence.

Earnings for the three months were 32¢ per share against 51¢ a year earlier. For the entire nine months of 1960 so far, sales were up 8% over a year ago, but earnings declined 12% to $1.46 from $1.80.

In its September quarter **Allied Chemical** reported lower earnings for the first time this year, indicating that the weakening price structure that has affected most companies all year is finally catching up with it as well. Per share net declined to 53¢ from 59¢ a year ago despite an increase in sales. The pattern, however was not individual but typical of the entire chemical industry. Even **Eastman Kodak,** which generally enjoys better-than-average profit margins, experienced a small decline to 84¢ from 91¢ a year ago. **Dow Chemical** another characteristically efficient producer, saw its profit margin slip from 11.1% of sales to 9.1%, leading to a decline in net to 68¢ from 84¢ in the same period a year ago. Dow, however, was untypical in that its sales also declined from the second quarter of 1960, although remaining well ahead of the year-earlier level.

Onward and Upward

Perhaps the best indication of the basic vitality of the economy is the number of major companies that did report better earnings in the third quarter. All of the major steel companies, of course, fall within this category, but in this case the comparisons with the strike period of last year are meaningless. But others are extremely significant.

General Foods, whose operations provide a good

Quarterly Income Comparison of Industrial Companies

	3rd Quarter 1960			2nd Quarter 1960			1st Quarter 1960			3rd Quarter 1959		
	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share
Allied Chemical	$187.5	5.6%	$ .53	$216.8	8.0%	$ .87	$184.1	7.3%	$ .68	$174.2	6.7%	$ .59
Alpha Port. Cement	N.A.	N.A.	.90	11.5	19.3	1.26	4.1	N.A.	d.26	N.A.	N.A.	1.44
American Machine & Foundr	98.9	5.5	.69	71.7	5.7	.54	70.55	9.1	.85	79.0	5.4	.52
American Rad. & S. S.	127.4	2.9	.32	122.0	1.8	.19	113.2	2.9	.28	137.4	4.3	.50
Burroughs Corp.	85.8	1.3	.17	102.8	2.5	.39	98.6	2.4	.37	88.4	2.3	.32
Caterpillar Tractor	185.8	6.6	.45	202.1	5.6	.42	183.2	4.8	.32	195.4	7.4	.52
Container Corp. of Amer.	81.6	6.4	.49	81.6	6.4	.49	76.4	6.0	.43	80.9	6.3	.48
Delta Air Lines	31.6	1.1	.31	34.4	5.0	1.55	31.0	2.1	.06	26.0	1.6	.37
Dow Chemical	202.1	9.1	.68	205.4	10.3	.77	182.2	8.8	.59	191.6	11.1	.84
Du Pont	532.0	N.A.	1.96	568.6	18.2	2.21	541.5	18.2	2.10	550.6	19.5	2.29
Eastman Kodak	229.7[1]	14.2	.84[1]	221.8[1]	13.8	.80[1]	195.4[1]	12.3	.63[1]	221.0[1]	15.9	.91[1]
Ferro Corp.	14.3	3.0	.53	16.3	4.9	1.00	16.5	5.5	1.18	15.8	5.1	.99
Flintkote Co.	73.0	7.1	.86	65.8	6.3	.72	45.9	2.8	.20	72.8	8.2	1.02
Ford Motor	978.4	5.2	.93	1,357.4	8.8	2.22	1,527.1	9.3	2.61	1,036.9	5.1	.97
General Electric	1,030.5	5.5	.65	1,065.2	5.5	.66	957.4	5.5	.60	1,076.8	6.7	.82
General Foods	285.6	5.8	.68	274.5	5.8	.65	388.5	4.5	.71	255.3	5.8	.61
General Portland Cement	16.5	19.0	.59	17.3	19.5	.64	11.6	12.7	.28	17.8	18.6	.63
Gillette Co.	61.2	15.4	1.01	58.1	15.1	.94	51.9	16.2	.90	59.3	14.1	.90
Hercules Powder	88.8	N.A.	.85	87.1	N.A.	.87	73.4	7.5	.64	73.0	N.A.	.71
International Business Mach.	345.9	12.2	2.32	354.7	11.7	2.27	339.8	10.3	1.92	325.5	11.5	2.06
Jones & Laughlin	164.2	2.1	.40	207.1	4.0	1.02	254.4	6.9	2.22	66.6	d2.4	N.A.
Kaiser Aluminum & Chem.	99.3	5.8	.31	103.1	4.3	.21	111.0	6.5	.41	101.8	1.9	.05
Liggett & Myers Tobacco	141.5	5.3	1.83	139.0	5.3	1.79	127.4	5.1	1.58	144.5	6.0	2.15
Marquette Current	20.1	20.2	1.53	16.3	18.5	1.13	5.7	7.1	.14	19.8	20.9	1.56
Mc Donnell Aircraft	84.1	3.0	.74	106.6	3.0	.98	112.8	2.5	.84	99.1	2.4	.71
Minneapolis Honeywell Reg.	107.0	5.9	.91	105.3	5.5	.83	100.4	6.1	.88	98.1	8.6	1.21
Monsanto Chemical	204.7	6.3	.56	219.6	7.9	.75	212.1	7.6	.70	199.4	7.6	.66
National Gypsum	66.8	11.7	1.25	58.8	10.7	1.12	43.1	8.4	.64	67.2	12.6	1.56
New York Air Brake	31.2	4.1	1.74	10.6	4.0	.58	11.2	3.5	.53	31.8	5.3	2.33
Parke, Davis & Co.	52.2	14.1	.50	45.6	12.2	.38	53.4	17.8	.64	50.8	16.6	.57
Penn-Dixie Cement	17.5	18.4	1.16	14.7	18.3	.97	5.2	2.0	.04	19.0	20.8	1.42
Plough, Inc.	11.7	7.5	.66	14.0	6.6	.71	9.5	7.2	.54	8.5	8.8	.59
Polaroid	19.0	8.5	.41	19.7	9.2	.47	20.1	11.2	.58	21.8	13.6	.67
Radio Corp. of America	354.0	1.7	.32	345.8	1.4	.30	361.2	3.6	.85	340.5	2.6	.51
Rayonier Inc.	30.6	6.7	.37	35.4	9.0	.57	34.1	7.7	.47	30.2	9.9	.54
Raytheon Co.	125.2	1.5	.50	142.8	1.4	.52	134.7	1.6	.56	110.6	2.3	.71
Republic Steel	217.5	3.3	.47	263.3	5.0	.84	373.9	7.5	1.80	64.0	N.A.	N.A.
Reynolds (R.J.) Tobacco	372.9	7.2	1.34	357.4	7.1	1.27	321.7	7.2	1.15	339.6	7.1	1.20
Rohm & Haas	52.5	8.9	4.15	59.9	10.6	5.64	56.2	10.4	4.58	53.6	10.3	5.03
St. Regis Paper	148.8	3.3	.38	126.0	4.6	.98	121.9	4.8	.60	147.6	5.4	.72
Scott Paper	76.6	8.5	.79	77.6	8.6	.83	80.2	8.3	.83	72.7	8.0	.72
Socony Mobil Oil	N.A.	N.A.	1.08	N.A.	N.A.	.75	N.A.	N.A.	.97	N.A.	N.A.	.95
Texas Gulf Sulphur	15.6	21.9	.34	16.0	21.3	.34	13.1	20.6	.27	15.6	17.3	.27
Union Bag & Paper	53.1	8.1	.56	57.8	9.0	.67	47.3	9.9	.64	52.8	8.7	.59
Union Carbide	385.8	9.4	1.20	376.3	10.3	1.30	395.3	10.6	1.40	360.8	10.1	1.21
Upjohn Co.	42.2	16.4	.49	36.8	12.6	.33	39.6	14.8	.42	45.6	18.8	.61
Vick Chemical	40.2	17.2	1.16	28.0	6.7	.32	35.4	12.5	.69	35.7	17.0	1.01
Westinghouse Electric	503.6	4.0	.57	495.0	4.2	.59	458.8	4.1	.55	494.1	4.4	.63
Worthington Corp.	49.7	3.0	.84	51.2	4.0	1.15	43.4	3.9	1.02	42.0	1.8	.40
Youngstown Sheet & Tube	121.6	13.7	.77	149.8	4.0	1.72	195.4	6.5	3.70	58.6	12.2	d2.06

d—Deficit. [1]—12 weeks.

indication of the high level of consumer income and spending, raised its sales to $285 million from $255 million last year. For the September quarter profit margins were maintained at 5.8%, raising net income to 68¢ per share or better than 10% above earnings a year ago.

Others on the improvement list include several companies that have been so well covered on these pages that no further comment is necessary. Among these, **IBM** and **American Machine & Foundry** should be inscribed on the honor roll.

Vick Chemical, another company closely tied to the consumer's spending habits, scored record sales in the third quarter, expanded its profit margin and raised its net income to $1.16 per share from $1.01 a year earlier.

To round out the roll of consumer goods companies with noteworthy progress, mention should be made of **Gillette,** which scored a small increase in sales but a large rise in profit margins that expanded net per share to $1.01 from 90¢ in the same period last year. As a result, Gillette recently declared a 50¢ extra dividend in addition to the dividend increase it gave shareholders earlier in the year.

Industry Pattern for Smaller Companies

The smaller companies, in general, had more trouble than the majors during the third quarter. Nevertheless, in most instances the pattern was roughly the same. Sales held up well, but overcapacity and the hard task of competing with the giants cut profit margins and earnings substantially.

In some cases, such as in the cement industry, all the companies suffered from a failure of expected demand to materialize, and earnings and operations were particularly hard hit. **Marquette Cement** was a partial exception, with a small advance in sales and only a modest slide in earnings, to $1.53 from $1.56 per share. As a matter of fact, Marquette's experience was so unusual that it posted price increases of from 1½ to 3% which the rest of the industry is hesitating to follow. **Alpha Portland Cement,** in fact, is now so worried about the outlook that it slashed its dividend from 45¢ quarterly to 15¢ following a drop in third quarter earnings to 90¢ a share from $1.44 a year ago.

Investors in other cement companies, however, need not view this picture with undue alarm. Most of the companies are, to be sure, faced with large tax rebates to the government under a recent new ruling on the depletion issue. Alpha may be particularly burdened by this problem. But **Penn-Dixie, General Portland** and the others, which also reported lower earnings and sales, have given no indication as yet that they will pare their payments to shareholders.

Of course, if roadbuilding and construction fail to pick up by next year the industry will be in a more difficult plight, but so far the chances look good that the new administration will turn to construction activity as one of the stimulants to reverse the mild downturn in the economy.

The aluminum producers have also suffered a general decline in sales as well as earnings. As only **Kaiser Aluminum** had released its figures at this writing, the overall impact on the industry is hard to tell. Nevertheless, it is probable that Kaiser's reduction in sales will be typical of its competitors, although its reported increase in earnings to 31¢ from only 5¢ a year ago will certainly prove an exception.

Scott A Standout in the Paper Group

Reduced sales, however, do not characterize most of the reports. Among the paper producers **St. Regis** and **Union Bag-Camp** scored modest sales increases but still suffered earnings setbacks. Union Bag, whose business is generally less volatile, had a small decline to 56¢ per share from 59¢. St. Regis, however, which operates in a field more closely allied to industrial production, and which has joined its competitors in a race to build up capacity, paid the price in a deep drop in earnings. Per share net for the third quarter fell to 38¢ from 72¢ in the same period a year ago, despite higher sales.

Earlier in the year, the company predicted a strong advance based on its hopes for new lines of consumer goods products. The problems of competing with such efficient producers as **Scott Paper Kimberly-Clark** perhaps proved more difficult than the company expected.

Scott, in fact, continued on its merry way, again scoring an advance over the previous period. Not only did sales increase by 5%, but the company also increased its efficiency enough to score a 10.6% increase in earnings. The 79¢ earned in the period compared with 72¢ a year ago, and brought nine months results to $2.45 per share. Indications are that the same pattern will continue. In the last four weeks of the third quarter, Scott shipped more goods to its customers than during any other monthly period in its history.

Electronic Troubles

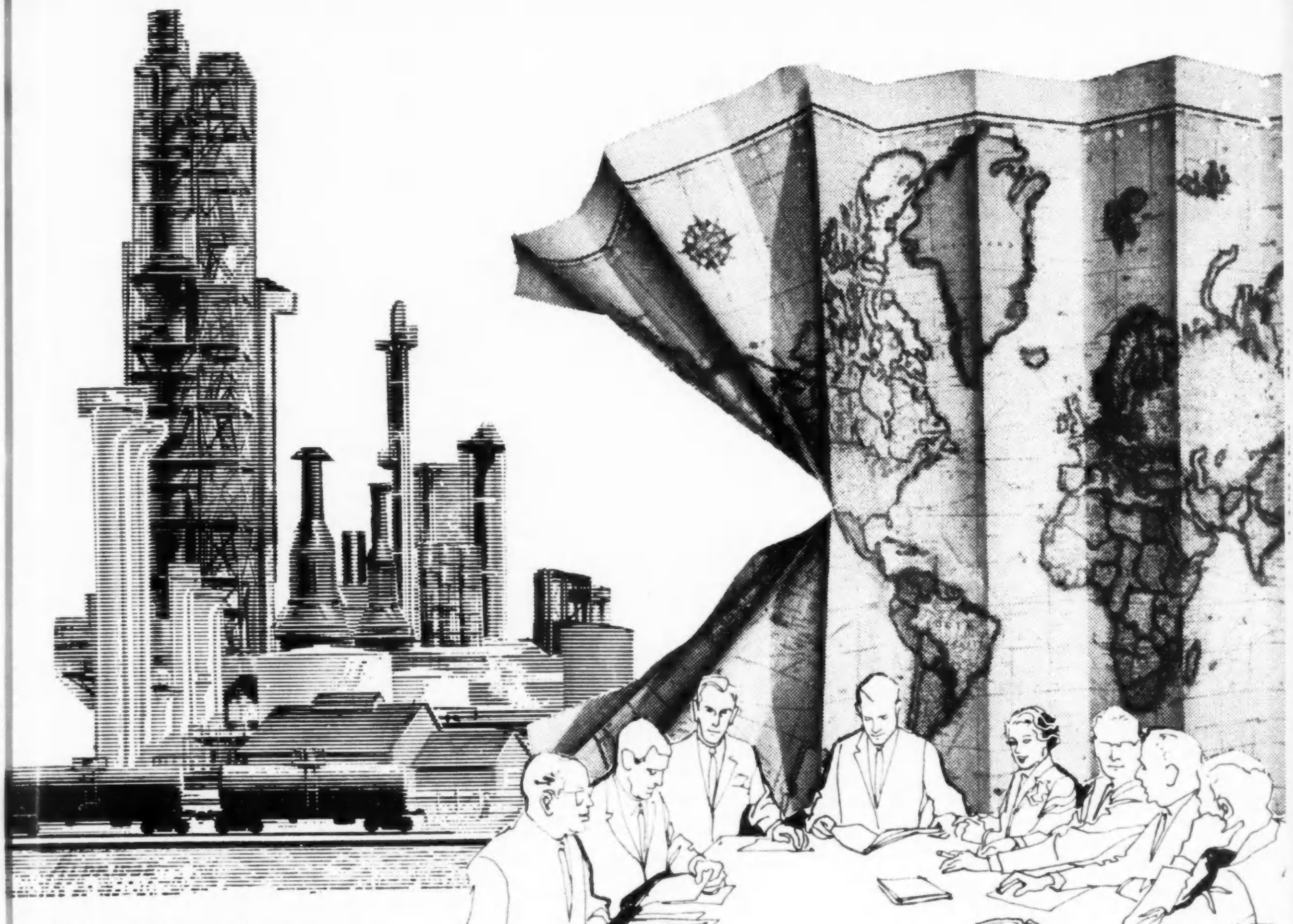
Among the smaller producers of electronic equipment the impact of sharper competition and mounting costs was especially hard. **Minneapolis-Honeywell** had an unusual slide in its profit margin, from 8.6% to 5.9%. Thus, although sales advanced moderately, net per share fell to 91¢ from $1.21 last year. Honeywell was hit doubly this year. The falloff in the new housing market reduced demand for regulators while the costs of developing a line of data-processing machinery continued to climb. The results can be seen in the figures.

Another of the many companies basing its future hopes on electronic equipment is **Burroughs Corporation.** At the moment a decline in conventional office equipment business combined with slower than expected shipments of the new electronic equipment is punishing earnings results. Sales actually declined in the third quarter, and profit margins slipped badly, slicing net income to 17¢ per share from 32¢ a year ago.

Fortunately, an excellent first half bolstered the nine month totals so that earnings for the year so far are still ahead of 1959. Otherwise, there might be some concern about the safety of the $1.00 dividend.

Building Industry Troubles

The experience of the cement producers, and Honeywell's troubles in the housing business point up the plight of the building materials suppliers. As a group they have *(Please turn to page 208)*



First hand story

WHY BEIRUT CONFERENCE FAILED TO SOLVE WORLD OIL PROBLEMS

By JOHN H. LIND

THE anxiously awaited Beirut oil conference has ended and nearly everyone in the world oil industry is breathing a sigh of relief. For the final resolutions adopted by the Arab oil countries were quite inocuous, compared to the inflamatory speeches made by some of the delegates earlier in the conference. Thus, for the time being—certainly th next six to eight months—a period of relative surface calm can be expected to prevail between the oil companies and their host governments, both in the Middle East and Venezuela (though the latter was only a guest at the conference, it participated more actively than some of the full-scale delegations). But the big problems facing the international oil industry have by no means been solved and neither has any decision been reached to settle them amicably. The sigh of relief was justified only because the termination of the conference without a resolution for specific action on any of the subjects under discussion means a temporary breathing spell. But already next January, the newly-formed Organization of Petroleum Exporting Countries will hold its second meeting for the specific purpose of outlining a program which would insure it some measure of control over world oil prices and production.

What are the chief problems involved and what are the differences dividing the oil companies from the producing countries?

The problem is, of course, the steady weakening in world oil prices ever since the end of the Suez Crisis in June 1957. Prices declined first to the pre-Suez level and then further to the present basis. The cause of the decline is not difficult to pinpoint: it is over-production and the entry of too many newcomers into the world oil business.

The Background

Overproduction can be traced partly to the Suez Crisis and its shock effect on many European oil

consuming countries. The sudden realization that Western Europe's economy depended to a considerable extent on Middle East politics caused a sharp spurt in oil exploration outside the Middle East, for the purpose of lessening that area's overriding importance as Europe's chief oil supplier. The most prominent example is the urgency behind the development of Saharan oil by France. Doubless, the oil fields there would have been developed in any case. But the process would have been slower, and with the thought of carefully adjusting the new production with that of other areas.

The scramble for new concessions in Venezuela, both by established concerns and newcomers, in 1956/57 was another reflection of the desire to develop alternate supply sources to the Middle East. Finally, European governments, again partly as a result of the Suez crisis, took action to slow down the rapid rate of conversion from coal to oil in their countries' industrial heating markets. Recently, Germany, France and Belgium imposed temporary high import taxes on fuel oil for the specific purpose of strengthening the coal industry's competitive position.

Still another reason for overproduction is the desire by most major oil producing countries for self-sufficiency and for gradually and steadily rising oil revenues. These countries have been putting continuous pressure on the companies to produce more each year. Argentina, which until a couple of years ago imported about a quarter of a million barrels of oil daily, is a prime example of this tendency. The country is now close to self-sufficiency and within 3 years it even hopes to become a modest exporter of the liquid black gold.

Many of the newcomers, companies which in the past were engaged exclusively in domestic oil activities, have spent millions of dollars on developing oil reserves lured by the possibilities of much higher foreign earnings, and must now begin to dispose of their oil if they are to recoup their investment.

This, almost more than any other factor, has changed the international oil situation. Ten years ago eight giant companies controlled 93% of all oil produced outside of North America. Today, some 27 private companies and five government-owned concerns are aggressively searching for oil in the Middle East alone. If Libya, Algeria and Morocco are added, the total number of companies becomes even larger.

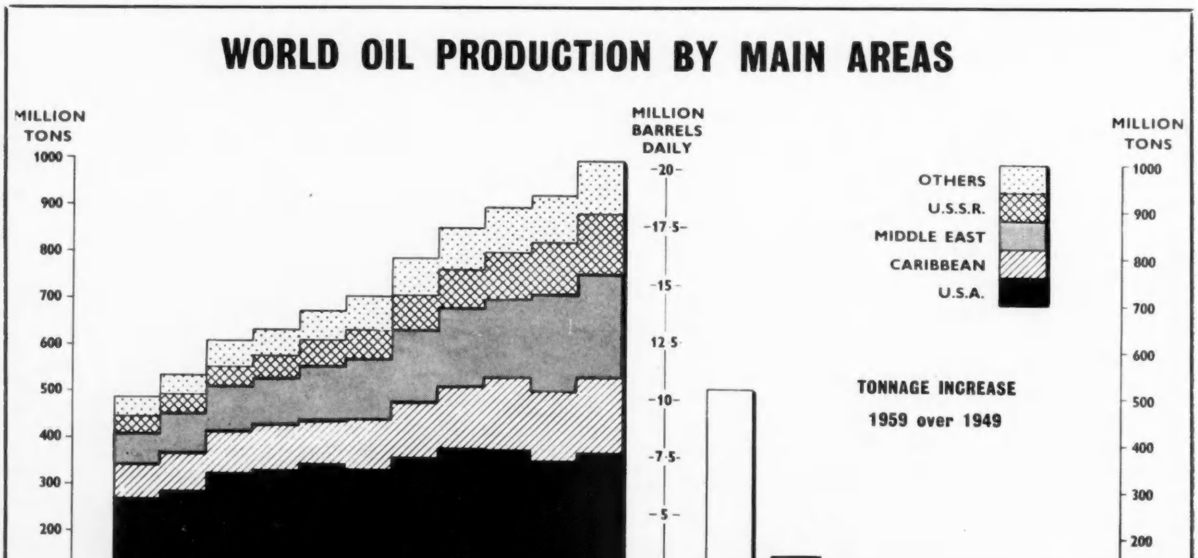
Last, but certainly not least, is the entry of the Soviet Union into the Western oil market. Although its shipments to Free Europe and Asia account for only 4% of their oil consumption, the impact was sufficient to weaken the world oil market, due to their concentration on a few highly sensitive areas.

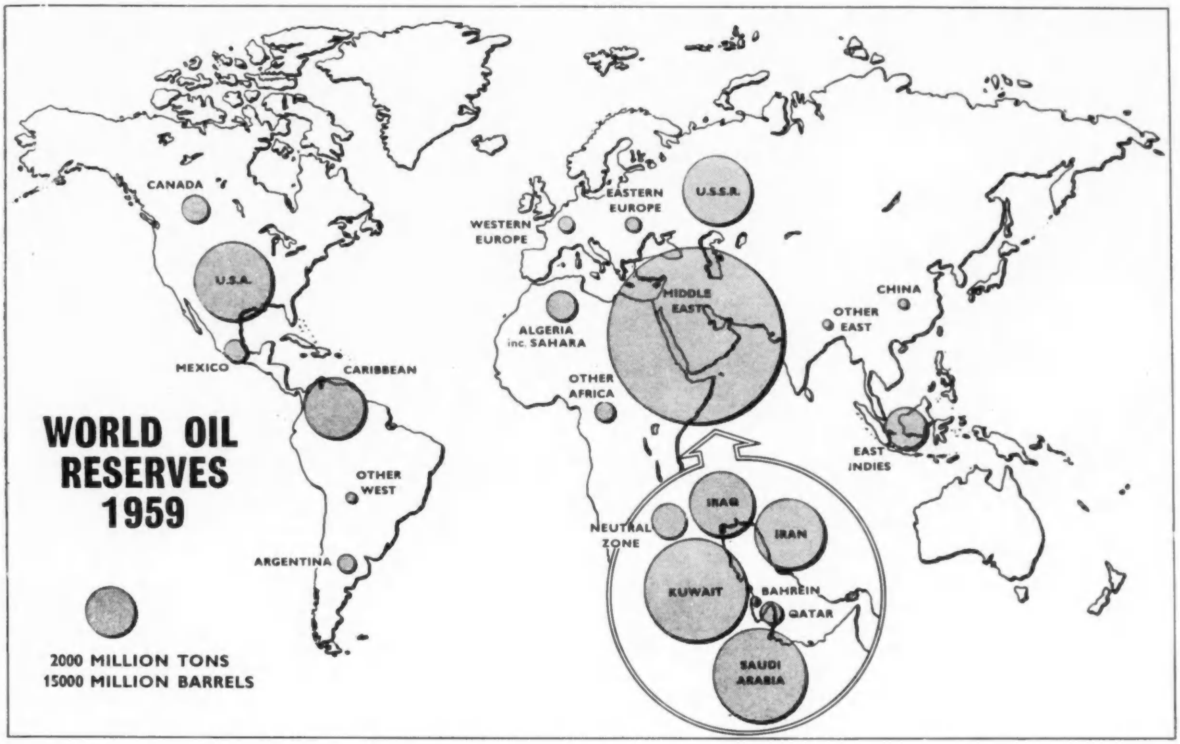
When the Companies Lowered the Price . . .

This was the situation which faced the major international oil companies last July when they lowered Middle East prices to conform to what they considered the realities of the situation.

This action caused a storm throughout the oil world which is still blowing. The Middle East governments were infuriated at what they considered a completely unilateral action on the part of the companies in a matter of vital significance to their national welfare.

In Venezuela Sr. Perez Alfonso, the Minister of Hydrocarbons, threatened to suspend the production privilege of any oil company that met the Middle East price drop. At the same time the pet scheme of Perez Alfonso and Sheik Tariki, Saudi Arabia's Director of Oil Affairs, for a world-wide system of regulating oil production was once more unwrapped.





But this time, the advocates of the scheme had a good many more arguments in its favor than ever before.

The meeting in Bagdad last month must be considered successful, inasmuch as it did result in the formal establishment of the Organization of Petroleum Exporting Countries (OPEC) as an instrument for further action.

Meanwhile, the oil companies continued to explain their reasons for having reduced prices, with particular emphasis on Soviet competition. They did not—and still do not—give the impression of taking the OPEC scheme very seriously. Their main hope for improvement in the world oil situation is the very healthy growth rate in demand throughout the eastern hemisphere and Latin America. In the first half of 1960, European oil consumption rose by 19%, despite government measures to protect the coal industry, while in the Far East, demand was up by 17%. The oil companies believe this sharp rise in demand throughout the free world, is bound to bring supply in line with demand. Their expectation is that this will be accomplished within four or five years, rather than immediately. From the viewpoint of the companies, the industry and the exporting countries have no real reason for anxiety as long as demand keeps growing at the present rate. They point out that even with the recent price reductions the Middle producing countries will still receive a higher income from oil royalties and taxes this year than last—probably an all-time record of $1.33 billion.

At the Beirut conference these various views clashed head-on. But, fortunately, the sparks did not ignite an explosion.

The Charges by Saudi Arabia

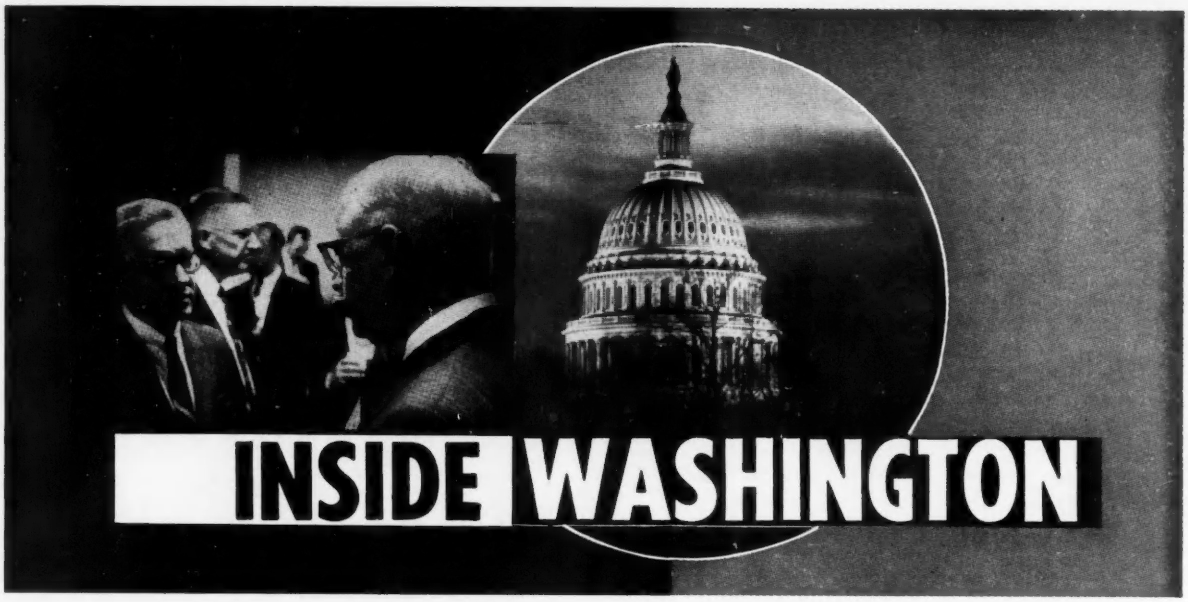
The principal attack on the Western companies came from highly emotional Sheik Tariki who once studied oil geology at the University of Texas. The Sheik implied rather bluntly that the oil companies had cheated the Middle East producing countries for the past decade. According to his calculations, while the oil companies claimed in 1950 that it was a 50-50 deal, actually it was a 32-68 arrangement in their favor. He held that the price of Middle East oil should be based on a complicated formula tieing it to U.S. Gulf Coast prices plus net freight to London.

Under this formula, he said, the price of oil since 1953 would have been 53¢ a barrel higher than it actually was and the 9.5 billion barrels of Middle East crude oil exported in the past six years would have been worth about $5.5 billion more. "We want half of that," he shouted at the assembled oil company representatives, and he also accused the major international companies of being "the sole reason for oversupply" and expressed the sentiment that "oil consumers are dear to us."

Theoretical Price Formula Unrealistic

Oil company representatives were literally flabbergasted at Tariki's price calculations and accusations. Since the Sheik is quite knowledgeable on world petroleum economics, his thesis was not just pure nonsense. It was compounded of half-truths and over-simplifications, and for this reason, rather difficult to refute.

For in theory such pricing formulas as he advanced do exist. But *(Please turn to page 201)*



BY "VERITAS"

VACUUM is the word most descriptive of the marbled mazes of Washington bureaucracy for the past few weeks. Government business has not come to a standstill, but it has been on the lethargic side as the national Presidential and Congressional campaigns "warmed up." The bigwigs of government, from Cabinet level down to even chief clerkships, have been more concerned with fortunes of the two Presidential nominees than with the mail on their desks or the caller seeking information vital to his business interests. Further clogging the wheels of government was the World Series baseball games as tens of thousands of government employees hovered over portable radio and television sets. This is a fact, not a facetious comment. The vacuum will continue until the election returns are in.

WASHINGTON SEES:

A desperate Fidel Castro will create serious hemispheric troubles, primarily aimed at the discomfort of this country, probably just days prior to our national elections.

The paranoid, bewhiskered dictator, now in trouble with his own people because of our trade embargo, mounting defections from his own forces, and general Latin-American aversion, is in a position similar to those of Kaiser Wilhelm in 1914 and Adolf Hitler in 1940. Castro has to have military action if he is to divert the minds of his "subjects" from the oppressive state of affairs in his own bailiwick.

Intelligence reports indicate he may take military action against our Naval installation at Guantanamo, manufacture an "incident," or seize the Kennedy pronouncement that we should render all possible aid to Cuban exiles who wish to mount an invasion of the island republic.

Castro is relying heavily upon support from Khrushchev; threats of missile artillery he made in the Suez crisis. He also feels we are too bound by our commitments to the Organization of American States to take any real action.

If, however, November 8 dawns without fireworks from Castro there will be no shooting in the "Pearl of the Antilles" — for us, that is — the Cuban embroglio will resolve itself through direct action of Cuba's sane-minded nationals, both in exile and in Cuba.

ELECTION forecasts, to be confirmed or repudiated within a matter of four or five days, vary widely. Looking at them from the Washington point of view the analyst or pollster finds himself in a sea of uncertainty. Washington newsmen who have traveled with the two Presidential candidates and political "old-timers" of Capitol Hill—all steeped in election lore, past elections and public opinion—have varying opinions ranging from the photo finish to a landslide. These neutral observers, all relatively free of partisan bias, don't seem to get together, regardless of Party affiliation. Some Democrats concede the election to the GOP "by a landslide," others see their candidate in the same light, while still others say it will be "one or the other, by a whisker." What is true of Democratic opinion is equally true of the Republican views and newsmen. A political veteran of 60 years, who correctly forecast every Presidential election since 1912, flatly refuses to predict the winner this year.

PATTERN has been delineated for vastly improved labor-management relations in the large, basic industries according to top figures in the AFL-CIO and experts in the Department of Labor. They point to the recent agreement between the five railway operating brotherhoods and the carriers to submit their "featherbedding" dispute to a Presidentially appointed 15-man Commission which will work on the problem for nearly a full year. Labor Secretary James P. Mitchell confidently sees the rail agreement as a means of reviving the now-dormant top level labor-management conference urged by both President Eisenhower and AFL-CIO president George Meany nearly a year ago. The rail pact has proven a good public relations stroke that other industries and their labor cannot ignore.

As We Go To Press

New Rail Competition Worries Trucking Industry. The relatively new system of "Piggybacking," or the loading of truck trailers on railway flat cars, is causing concern in the trucking business which sees present "piggyback" rate of growth as a serious menace. Flat car loadings are now running to more than 19,000 trailers or trailer-size containers a week, a 34 percent gain over 1959 and 110 percent above 1958. The system accounts for less than two percent of all freight loadings, but its present rate of growth is recapturing much of the revenue tonnage lost to the truckers over the past few years. In the meanwhile, highway engineers and traffic experts favorably regard the system which is now shifting over 1,000,000 truck-loads of freight a year from congested streets and highways to rail tracks. It is the heavy trucks that wear out the highways — not the passenger cars — according to the highway engineering experts.

Aerospace Industries See More Federal Financial Aid As Necessary. The industry has invested in new and expensive facilities almost to the limit of its financial strength. The government bears a portion of this cost — perhaps as much as 60%, — but mounting construction costs of facilities that have no use other than defense production, have been excessive. Experts in the industry declare that if the United States is to compete in the areas of technical supremacy, advanced steps in space exploration and superior weapons, government must come through with a more liberal policy on facilities investment. It is a problem for the new Congress and may have quick solution with both Parties committed to stepped up defense efforts. Elsewhere on the same front, it is declared by military and civilian experts that our present military airlift capacity could not handle even the demands of a limited war, much less a general and all-out nuclear conflict.

Defense Department Increasingly Concerned With Strikes At Critical Defense Installations. The unions averaged one strike every four days at Air Force missile bases in the fiscal year ended last June 30. In 95 strikes, 78,400 man days were lost at four of our most critical bases, putting the intercontinental missile base construction program about six months "in the hole." Harried Defense officials plan an appeal to Congress to make work stoppages at missile sites illegal, and with stiff penalties for violations. Congress, which will not convene until next January, will be inclined to go along with Defense, despite political and financial strength of the unions — this from responsible Members of House and Senate Armed Forces Committees.

More Public Lands To Be Available For Gas-Oil Leases. This is from a responsible source in Department of Interior's Bureau of Land Management which has called for lease bids on more than 8600 acres of public lands wholly within one of the Larger Air Force bases. According to this reliable informant, government holds over two million acres of potentially oil-gas rich lands, lease of which conceivably could produce revenues that would serve to lower tax burdens. The idea has strong White House support and may be unveiled within the next few weeks.

Treasury Pressures Fed. Savings And Loan Corp. to Hedge Guarantees. Treasury Department, unhappy with slow Series "E" and "H" Savings bond sales, wants Federal Savings and Loan Corporation (which guarantees deposits with building and savings & loan associations) to restrict guarantees to associations paying 3½% or less on deposits. Most of the savings institutions are paying 4% (some a little above) with interest compounded quarterly, a more attractive "little man" investment than the Treasury bonds. FS&L could make the move by fiat and without Congressional approval. However, nothing will be done until after the election Nov. 8. Any forced cut in interest rates would be political dynamite for an Administration under fire

for its so-called tight money policies. Treasury wants the savings groups under the same limitations now applicable to the general banking houses — about 3% on minimum balances of $100-$200, or more.

Congress May Soften Some Of Present Federal Broadcasting Regulations. This is not only the hope of the broadcasting industry, but the prediction of sources close to the Interstate Commerce Committees of House and Senate. High in hopes of the industry is legislation which will repeal the "equal time" provisions of the Federal Communications Act, temporarily suspended to permit the Kennedy-Nixon television-radio debates. Sen. Warren Magnuson (D., Wash.), Chairman of the Interstate Commerce Committee, plans a "look-see" at past "payola" scandals, plus a general study of the industry's code, but at bat for the broadcasters will be Gov. Leroy Collins of Florida, newly elected President of the National Association of Broadcasters and a personality with great influence on Capitol Hill. In the meanwhile, the broadcasters, through their Association, are stiffening their code and earnestly trying to police the industry.

Oil Import Quotas To Move Downward. This from an extremely reliable source who declares they will be slashed around 60,000 barrels per day (crudes and semi-finished) in regions East of the Rockies, beginning Jan. 1. Announcement of the move is expected to keep Texas in the GOP column according to Democrats who will charge the action to be "political, not realistic."

Automotive Tax Hassle In The Making. Present Federal 4¢ excise on gasoline and other fuels, 10% on automobiles, tires, auto parts and accessories, is now yielding annual revenue of $4.3 billion, but only $3 billion goes into highway construction, the remainder going into general funds of the Treasury. Look for legislation to earmark all automotive taxes for highway construction. Knotty problem, to be solved by Congress: Where will we get $1.3 billion for general Treasury funds if automotive excises are 100% allocated to highway construction? The answer is not clear unless we have an overhaul and simplification of the presently complicated internal revenue code.

Chinese Troop Support For Cuba Doubted. A recent press report that Mao Tse-Tung has sent fighting men in numbers to the Castro empire is doubted by Washington intelligence sources who believe there "may be" as many as 300 Chinese there, skilled saboteurs and trouble-makers, whose chief job is to train Reds from other Latin-American countries in the art of the swift blow and the rapid take-over. Mao, although he could only prevent President Eisenhower's visit to Japan through riotous action, may feel that he can be more successful South of the Rio Grande. In the meanwhile, top psychiatrists, who have studied Castro's diatribes and public appearances have cautioned White House that he is definitely "paranoic."

Samos Failure Brings Recommendation of U-2 Flights. It will not occur because of President's order that the flights be discontinued. Nevertheless, certain rather highly placed figures urge that they be resumed until we successfully orbit the Samos, our hoped-for "eye-in-the-sky," which could photograph and transmit to Earth its findings in any portion of the globe.

Those wishing resumption of the U-2 flights insist the mishap which be-fell pilot Francis Powers would not happen again "in a hundred years," that although the flights might be tracked by radar, the Russians have no planes or rockets that could reach the high-flying craft. The intelligence that could be gathered is "absolutely essential" is the private statement of one defense authority, who adds, "It is a calculated risk we must take as a matter of safety, and to close a distressing intelligence gap."

U.S.-Built Compact Autos Will Almost Eliminate Foreign Competition In Three More Years. This is the presently private prediction of one American manufacturer who adds that he now doubts the necessity for bringing out models as small as the European cars. He also believes our competitive position may be improved when our '62 models, more compact than th present U.S. offerings (and at lower prices), come off the line.

A common sense appraisal by a practical investment expert . . .

WHAT PROSPECTS FOR SUCCESS IN LATIN AMERICAN COMMON MARKETS TODAY?

By NORMAN A. BAILEY

- ► **Common markets in various formative stages — proposals and realities in implementing new Treaty of Montevideo**
- ► **How to meet the problem of competitive economies . . . differences and points of agreement**
- ► **The political hazards that call for a new reappraisal of U.S. enterprise in Latin-America**

THERE is a long-term historical trend towards the political and economic unification of regional groupings of states, on both sides of the iron curtain. The pattern of world trade and the revolution of rising expectations are such that economic integration has made much more rapid advances than political unification. The most important steps have been taken, of course, by the six nations of the European Economic Community (EEC): France, West Germany, Italy, Holland, Belgium and Luxembourg.

The very fact of the formation of the Community and the proliferation of common agencies has put tremendous pressures on the other nations of free Europe to join with the six in the joint enterprise. Indications are that Great Britain may soon abandon its obsolete isolationism and turn from an amorphous, dispersed Commonwealth to a compact, powerful, Europe. The United States and Canada have felt the pressures, too, and have attempted to mitigate the restrictive effects of the European Common Market by reinforcing GATT and forming the Organization for Economic Cooperation and Development (OECD), which is intended to coordinate the economic policies of a united Europe with those of its partners across the Atlantic.

Even the new nations of Asia and Africa are attempting to combine in political and economic groupings, and anything which serves to strengthen them in the face of communist subversion should be encouraged by the United States. **Care must be taken, however, to discourage them from making the understandable mistake of attempting to run before they have learned to crawl. Grandiose plans and topheavy industries can be, and often are, the curse of newly-struggling economies, where a few thousand dollars can often do more good than many millions.**

The Common Market for Latin America

The Latin Americans have not escaped the widespread tendency towards economic unification, and

Governor Rockefeller of New York has even suggested that the United States join with all of Latin America in a Hemisphere-wide common market, a scheme which, if put into practice, would insure that the Latin American nations remained suppliers of raw materials forever. **This plan (which has elicited no interest either here or to the south) is an example of the kind of grandiloquent thinking that may sound fine in a speech, but which helps not at all in the step-by-step solution of economic problems.**

Two plans of economic union have reached fairly advanced stages in Latin America, the Central American Common Market and the Montevideo Treaty. Others, such as the Grancolombia Market (comprising Colombia, Venezuela, Ecuador and Panama) are as yet in the planning stage, hardly more than pious hopes. *Even the two agreements which have already been signed express hopes more than actions, aspirations more than facts and ideals more than concrete measures.*

The *Central American Common Market Treaties* were signed in Tegucigalpa, the capital of Honduras, in June of 1958. There are two treaties, one providing for the gradual reduction of intra-zonal tariffs and restrictions, and the other envisioning the establishment of so-called "integrated" industries, whereby a single plant or factory would supply all of Central America. *As of this date Costa Rica has not ratified the treaties, and although they are nominally in force among the other four Central American countries, their effect has been felt hardly at all.*

LATIN AMERICA:
Level and Composition of Intra-Regional Trade, 1954-56

	Intra-Regional Import Trade (millions of $)	Intra-Regional Imports As % of Total Imports
Machinery and Equipment	....	....
Passenger Cars	....	....
Steel and semi-manufactured steel products	51.2	6.8
Copper and semi-manufactured copper products	3.3	0.4
Fuels	195.8	25.9
Chemicals and chemical products	7.6	1.0
Paper and board	0.1	....
Cotton yarn and textiles	7.9	1.0
Staple agricultural commodities	338.8	44.9
Miscellaneous	151.7	20.0

No Sound Basis for Intra-Regional Trade At Present

Only about three and a half percent of Central America's trade is intra-regional. **The nations of this area generally produce the same goods—coffee, bananas and cotton being by far the primary exports and earners of foreign exchange.**

To date not a single plant or factory in Central America has been designated an "integrated" industry, and seven firms manufacturing paint attest to the lack of coordination among these countries, most of the plants having sprung up since the signing of the Treaties, each hoping to be given preferential treatment, although a factory which already existed in Costa Rica could easily have filled demand, with some expansion of facilities. *Prompt protection given to local industry when Guatemalan shoes and Honduran shirts began to enter Costa Rica and El Salvador in quantity also indicates a somewhat less than crusading enthusiasm for economic integration.*

The Costa Rican Congress is conducting an investigation into the effects of the common market on Costa Rican development, and indications are that Costa Rica may never ratify the Treaty. The items of commerce listed in the Treaty as fitting candidates for tariff reduction include such items as yogurt and song-birds, while omitting many important industrial and agricultural products. The greatest blow to Central American unity, however, was dealt when Guatemala, Honduras and El Salvador signed their own, and much more stringent, common market treaty.

Can A Workable Agreement Emerge?

Nicaragua and Costa Rica immediately accused the other three nations of "economic aggression," and this development made Costa Rica's entry into the original common market even more problematical.

The Tripartite Treaty includes an agreement to equalize all import duties within five years at the most after the pact goes into egect, after which time merchandise shall circulate freely among the signatory powers, regardless of origin or place of shipment of the goods. During the five-year transition period, however, only goods native to the three countries shall enjoy the privilege of free circulation. The Treaty also sets up a Fund for Development and Technical Assistance and stipulates that capital from one country shall be treated as national capital in the other two.

Nationalism, rivalries and a confusing proliferation of conflicting treaties all combine to make the future of the Central American Common Market less than assured. Nevertheless there is no area of Latin America where such a common market could do more good than in Central America. Once a single nation, the various tiny states of this region broke apart early in the nineteenth century, and despite various efforts at political reunification they have never come back together. Perhaps through the medium of economic need the ten million people of Central America will find the path back to unity.

The Treaty of Montevideo

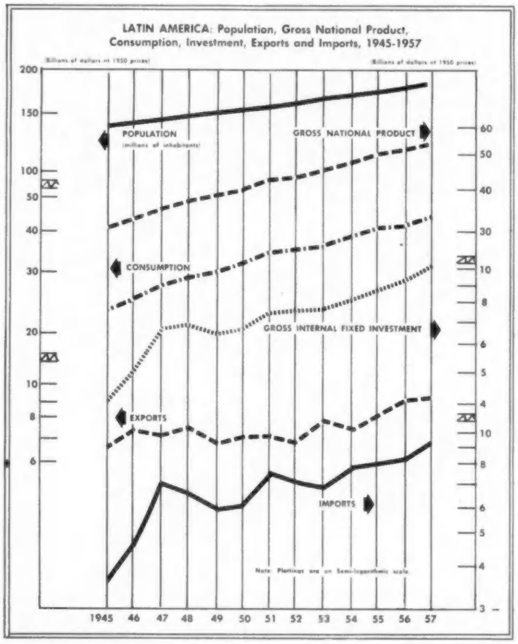
In February of 1960 seven nations of Latin America, including the four most important in terms of economic strength, signed the so-called Treaty of Montevideo, which is designed to establish first a free-trade area and then a common market among the ratifying powers. Assuming that all the states which signed the treaty eventually ratify it, this common market will have as members Brazil, Uruguay, Paraguay, Argentina, Chile, Peru, and off in the distance, Mexico. **Although Bolivia was represented at the Conference it did not sign the Treaty. All the other Latin American countries are specifically invited to accede to the Treaty, but so far there has been no indication of interest in so doing.**

The Treaty provides for a central organization

headquartered in Montevideo to administer its provisions, and consists of twelve chapters and five additional protocols covering some forty-two pages. This compares with the EEC Treaty, with hundreds of pages of the most detailed provisions dealing with every conceivable aspect of economic integration and organization. This is an indication of the thinness of conception of the Latin American Common Market, although it must not be forgotten that the "Inner Six" of Europe had the experience of the European Coal and Steel Community (ECSC) to fall back upon.

Problem of Competitive Economies

The seven signatory nations of the Montevideo Treaty contain the bulk of the land area, population and wealth of Latin America. Ten percent of their trade, or three times the amount in Central America, is intra-regional. Even this, of course, is a very small amount, and it must be noted that the provisions of the Treaty apply only to the goods included in this percentage. In other words their economies are competitive rather than complimentary, and this constitutes one of the strongest arguments against the eventual success of the Common Market.



Industrialization Efforts

The Economic Commission for Latin America of the United Nations (ECLA), headed by the forceful and persuasive Argentine economist Raúl Prebisch, was most instrumental in guiding the Common Market through a maze of Conferences and Congresses to its final fruition at Montevideo. The technicians of ECLA have adduced many reasons to support their belief in the efficacy of this association in promoting economic growth in Latin America. One of these is the encouragement of industrialization.

In a report published by the U.N. the Commission states that: *"Given a specific rate of economic growth in Latin America, the development of such industrial exports would reduce the scale on which import substitution had to be promoted. Latin America would be using its own manufactures to pay for industrial imports which in other circumstances it would have to replace by domestic production in order to attain the rate of development in question. The possibility under discussion would in no way imply a slackening of the rate of industrial growth that would otherwise have to be attained."*

Such growth in industrialization would be the result of a widening of too narrow national markets, and give the industrialist greater scope. *"Consequently, the more thriving the development of the region, the more smoothly and efficiently can the common market be brought into being. But the vigorous growth required cannot be achieved without that intensification of inter-Latin American trade which is one of the aims of the common market. Thus there is close interdependence between this latter and the acceleration of economic development."*

This in itself would aid in the development of greater specialization among the members based on natural resources and native skills and give greater play to a salutary division of labor. Finally, the argument is brought forward that the Common Market would promote the substitution of domestically produced goods for imports: *"If the substitution policy referred to is adequately implemented, imports, which at present constitute 16 percent of Latin America's aggregate product, will correspond to barely 7.7 percent by 1975, a figure consistent with the purchasing power deriving from the region's traditional exports."*

What's the Answer?

Despite these strong reasons for pushing the economic integration of Latin America, there are many factors militating against its success. Already noted has been the competitive character of the region's national economies. There is also the fact that the transportation and communications networks of Latin America have not been geared to intra-regional trade, and generally run from the interior to the seacoast, where goods are loaded for export to the rest of the world. Nevertheless, this is not too important a drawback, since most of the presently productive regions of the area, with the exception of Mexico, lie near the sea, and sea-borne trade among the nations involved is fairly well developed, and can be easily expanded. More important is the fact that the Montevideo Treaty itself is full of loopholes.

Exceptions to the provisions of the Treaty are made in favor of agriculture (which makes up the bulk of the present trade between the members) and the trade in petroleum and petroleum products, another large item. Also the poorer nations (defined as Paraguay as the Treaty now stands) are exempted from certain regulations. Besides this the Treaty makes a distinction between the "common schedule," drawn up to include the products on which the signatories agree to eliminate duties, and the "national schedules," which may be modified unilaterally. There is no guarantee that the more important items will be included in the common schedule. **Finally, all important decisions have to be made by unanimous vote, which means that the Organization will be at the mercy of its least free-trade minded member. This factor alone could ensure the failure of the Treaty.**

(Please turn to page 201)

WHY TOBACCOS HOLD THEIR OWN

—In today's market

By DAVID ELLISON BELDON

- **Competitive position between the companies — new type expansion into foreign markets for some — diversification into unrelated fields for others**
- **Companies occupying defensive investment position — those offering good return — where keen competition is being felt in terms of earnings**

LAST year saw the advent of a rash of new cigarette brands competing for the smoker's preference. The stepped-up claims and counter claims from the health controversy led to such extravagancies that the Federal Trade Commission and the industry in February of this year reached an agreement to eliminate health advertising from all advertising. The waning of the health issue may ultimately move some of the companies to concentrate on fewer brands, but for the time being they are concentrating on developing the many faceted market preference that has been heretofore developed.

Reflecting the lessening significance of the health issue, cigarette consumption has been quietly climbing. After the sharp fall-off in consumption in 1953 and 1954, when the health issue hit with full force, the stocks in the group lost favor almost everywhere. But slowly and consistently they have been coming back. The trend of consumption has been steadily upward and in recent markets the stocks as a group have been behaving very well. Part of this favorable action can be attributed to their traditionally generous yield and defensive rating. Some small measure of "growth" psychology may also be beginning to be attributed to tobacco.

Record highs for consumption of cigarette four years in a row, predictions of a further steady increase and lively attention to export markets put

Position of Leading Tobacco Companies

	1958 Net Sales (Mil.)	1958 Net Per Share	1959 Net Sales (Mil.)	1959 Net Per Share	1959 Cash Earnings Per Share	1st 9 Months Net Earnings Per Share 1959	1st 9 Months Net Earnings Per Share 1960	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield
American Snuff	$21.4	$4.79	$23.5	$4.96	$6.10	$2.94[1]	$2.95[1]	$3.20	63½-54	59	5.4%
American Tobacco	1,105.1	4.28	1,161.3	4.62	5.25	2.13[1]	2.13[1]	2.80	63¾-45	63	4.4
Bayuk Cigars	40.5	1.53	52.2	2.84	3.59	1.34[1]	1.09[1]	2.00	51½-28½	34	5.9
Consolidated Cigar	82.1	2.54	90.0	2.74	4.01	.94[1]	1.06[1]	1.25	33½-21½	32	3.9
General Cigar	58.6	2.11	61.3	2.53	3.20	.98[1]	1.11[1]	.80	35 -21⅜	32	2.5
Helme, G. W.	16.3	2.29	17.3	2.55	3.51	1.24[1]	1.14[1]	1.75	34½-29⅛	30	5.8
Liggett & Myers	556.0	7.60	554.9	7.28	8.58	5.81	5.20	5.00	98⅞-78¾	85	5.8
Lorillard (P.)	479.1	4.01	490.8	4.20	4.70	3.19[1]	2.91	2.20	48⅝-34⅛	39	5.6
Philip Morris	440.8	4.90	460.5	5.01	6.45	3.82[1]	4.09	3.60	75 -54	71	5.0
Reynolds Tobacco	1,146.5	3.80	1,286.8	4.45	4.95	3.30	3.76	2.60	85⅝-45¼	83	3.1
U. S. Tobacco	29.8	1.83	32.3	1.91	2.32	1.38	1.25	1.35	26⅜-22	23	5.8

*—Estimate of indicated dividend rate.

[1]—1st 6 months.

American Snuff Co. The company manufactures more than a third of the total output of snuff in U. S. While consumption of snuff does not have a growth pattern, the company also makes chewing tobacco and is taking steps to diversify. Earnings continue in a moderately rising trend. **B1**

American Tobacco Co. Second largest cigarette company, producing about 25% f all cigarettes in U.S. Also other tobacco products. Poll Mall and Tareyton continue to expand, and Lucky Strike volume tends to hold firm. **A1**

Bayuk Cigars, Inc. now accounts for about 15% of cigar unit volume. Marked sales and earnings gain may be tempered this year.. **C2**

Consolidated Cigar Corp. largest cigar company, with better than average record. Expansion due in part to aggressive merchandising. **C1**

General Cigar Co. Inc. medium and low priced cigar producer. Developer of homogonized leaf, permitting savings, a process now licensed to others on royalty basis. **C2**

Helme (G. W.) Co. Inc. is third largest snuff maker. Diversifying to offset the lack of growth in snuff. **B2**

Liggett & Myers Tobacco Co. ranks third as tobacco products mannufacturer. Chesterfield and L & M filter cigarettes are leading brands. Important in export field. **B4**

Lorillard (P.) Co. fourth largest cigarette company. Kent brand, a leader in the filter group, now target of competition. **B2**

Philip Morris, Inc. smallest of the "big five", recently making better progress with its newer brands. Recently diversified into razor blades and other products. Sizeable foreign or export cigarette business. **B1**

Reynolds Tobacco (R. J.) largest cigarette factor with top selling regular, filter and mentholated filter brands. Sales and earnings growth best in industry. Sizeable savings likely from new manufacturing facilities. **A1**

U.S. Tobacco Co. important manufacturer of snuff and smoking tobacco, also produces de-nicotinized "Sano". Has long record of stable earnings. **B2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

a new complexion upon what has been normally regarded as a merely stable industry.

Filters and Domestic Growth

In the first six months of 1960 domestic shipments of cigarettes were up about 7%. This follows an increase last year of about 4% to a total of 453.6 billion cigarettes, a new record high. The 1960 full year increase probably will not hold fully at the rate of the first half but is likely to average out at between 4% and 4½%. If it does four record years in a row, will have succeeded each other. Behind this expansion has been the "population explosion" counted on to help many industrial areas but failed to receive full recognition in the tobacco field. The post-war baby crop is beginning to make its influence felt as more and more teenagers are reaching the smoking age. Added to the teenagers has been an increase in the number of women smokers greater than their growing proportion of the population. On top of all this has been a marked increase in the per capita use of cigarettes. The Department of Agriculture, using carefully projected population and consumption trends, forecasts that by 1965 cigarettes smoking will advance 18% and by 1975, to rise 53% above the current level. While not outstanding by comparison with forecasts in other fields, this projection is significant in that it indicates growth substantially better than the mere population rates.

Remembering the health scare, the investor may be surprised at recent per capita consumption gains already accomplished, but basically the public seems to have examined the evidence and been unconvinced. The development of the filter by the industry has at least provided an indication of safety that the consumer was eager to accept. Assured in his own mind and perhaps influenced by the now prescribed advertising claims, the consumer accepted the filter and rapidly whirled it up to a whopping 50% of the market from the approximate 1½% that filters accounted for in 1952. The 1957 magazine articles that gave Lorillard's "Kent" its boost also helped move other brands into filters. By 1959 public acceptance and industry need met in the introduction of the "Tareyton" dual filter, "Riveria", "Alpine", "Belaire", "Spring", "Life" and "Duke of Durham". And the wide selection of brands was further complicated by the development of several marketing areas—regular, king size, filter, menthol filter and high filtration—appealing to a wide variety of tastes and preferences.

Proliferation of Brands

While the consumer has been won back, some industry commentators are beginning to wonder about the desirability of such a large number of brands. Advertising costs relative to sales volume mean that the same effort spread over a smaller number of brands and styles could bring bigger rewards. Brands don't just die and fade away but usually carry a few loyal buyers for years. The

trade recognizes, however, that the leaders are the ones that ought to be concentrated on for best financial results. The next year or two will probably see a concentration of effort to develop out of the present welter of brands strong new leaders comparable with the old traditional regulars before the filter invasion.

The research and promotion expense involved in bringing the filter to market and recapturing the possibly nervous consumer was not all wasted cost. The filter does provide some cost advantages that the trade will probably be able to keep. First, the filter itself is cheaper than tobacco and its displacement of tobacco in the cigarette provides a narrow cost advantage to the producer. Secondly, filters permitted greater use of reconstituted tobacco, the process that utilizes more of each pound of purchased leaf than was earlier possible. Reconstituted tobacco permits the former waste parts of the leaf to be rolled into even sheets which are shredded like leaf and used along with leaf. As a secondary benefit of this reduction in waste, inventories do not need to be expanded to cope with increasing volume at as fast a rate as formerly. This brings in further savings in purchasing, financing and warehousing. All of which has had a beneficial effect upon the all-important profit margin.

Advantages of Expansion Into Foreign Markets

Recent announcements that **Philip Morrris** had licensed the third largest German cigarette manufacturer to produce "Marlboro" in West Germany and that **Reynolds** had acquired a 51% interest in a big West German producer has called attention to the possibilities of the foreign market. Only about 4% of domestic production has been going directly into the foreign market but such developments in the current export picture suggest that more significant opportunities may be in sight.

Our numerous travellers to Europe have already made for a rather extensive "tourist" market which, when added to the growing internal prosperity abroad, has opened up new vistas for the expansion of the tobacco companies. The Common Market provides a strong incentive, which can probably best be exploited by joining forces with the local producers. In addition to overcoming the tariff and other barriers by such collaboration, lower advertising and production costs may also be secured. Since many of the less mature economies abroad are now increasing their consumption of cigarettes at a faster rate than in the States these markets look attractive indeed.

With American cigarettes usually costing anywhere from twice to four times their American price per pack in Europe, is is significant to note that Philip Morris expects its German "Marlboro" to market at 40¢ per pack against a present duty-laden. $1.14 for its imported namesake.

Sharp Risks in Foreign Field, Too

The American companies are not strangers to the foreign markets or unaware of certain dangers that lurk in that field. The Common Market, now getting so much attention, does offer considerable promise but may at first merely offset injuries elsewhere. Cuba, a former good market, has been lost. The Philippines, another favorable outlet, has deteriorated seriously because of exchange problems. Imports of finished cigarettes have virtually ceased and duties designed to foster the domestic tobacco crop also present difficulties in producing a locally made brand utilizing American blends. Venezuela, a former good export market, adopted similar legislation last year. Philip Morris did, however, switch to local manufacture in order to preserve an important export market and the earnings from that source. It now has a 51% owned affiliate in Venezuela which, in addition to local brands, is producing "Philip Morris", "Marlboro" and "Parliament."

Methods of Entering the Foreign Market

Liggett & Myers, always an important exporter, attributes part of the decline in its sales this year to export difficulties. **American Tobacco,** with an important subsidiary in England, does export some brands from there to the Continent. Its two large volume brands, "Lucky Strike" and "Pall Mall" are owned abroad by British American Tobacco Co. Ltd., a result of arrangements arrived at many years ago.

Lorillard has long been a licenser of foreign manufacturers for the production of its brands abroad. Most recent among these is a Finnish cigarette maker, giving Lorillard brands an unusually broad coverage of the Continent.

Philip Morrris through its International Division operates subsidiaries in Canada, Australia and the United Kingdom, in addition to its Venezuelan subsidiary and licensees in Switzerland, the Philippines and Panama. An indication of the importance of these operations and their potential advantage to others can be gleaned from Philip Morris' experience. Investment and advances by the company in the areas named total about $10 million, not including an equity in net assets abroad of about $2.0 million more. Had the foreign subsidiaries been consolidated in 1959, income from these sources would have added about 14¢ per share in net earnings.

All of the companies are obviously studying the foreign market. While not all have revealed as yet how they are going to take advantage of it, the outlines are beginning to shape up. It is clear that nationalism and tariff barriers are going to force changes in traditional methods. Foreign plants owned by partially or wholly controlled subsidiaries, such as Philip Morris and Reynolds have used, provide one method of direct physical entrance into such markets. Where this policy still leaves difficult problems, other companies may follow the license route of Lorillard. In any case, to offset losses which have already occurred in some former good markets, increasing attention will inevitably be given to new and more stable areas.

Individual Company Comments

Reynolds Tobacco Company has shown what many regard as merchandising ability in the industry. Its quarter-by quarter-sales and earnings increases in the past several years have considerably outstripped the industry. Back in 1946—the pre-filter age—its "Camel" brand, with about 28% of the market, ran second to American Tobacco's "Lucky Strike," then *(Please turn to page 209)*

OPPORTUNITIES IN GROWTH UTILITIES with high yields

— Paying Cash and Stock Dividends

By JOHN C. ELLSWORTH

THERE are a large number of utility companies that pay stock dividends from time to time, some in the form of split-ups while others represent an occasional 5 or 10% "stock bonus" in lieu of an increase in the cash dividend. Almost without exception the earlier cash rate is maintained after payment of small stock dividends, so that the effect of each such distribution is an increase in the cash dividend. This stock dividend device may have been adopted by some companies in order to reward their holders more generously and yet avoid the onus which customers or regulatory forces might attach to an increase in the stated dividend rate.

A few utilities, going even further, have definitely adopted a policy of paying dividends in both cash and stock. Usually the stock dividends are paid once a year although the cash dividends are paid quarterly. A principal motive for such a policy is to avoid or reduce equity financing. The low cash dividend payout means that more earnings are retained and the internal "cash flow" is increased; consequently, less money need be raised by sale of securities to take care of new construction. **Another reason is the ever-present tax angle—no income tax need be paid currently on the stock dividends retained by the holders, although eventually a capital gain may be involved when the stock is sold.** Obviously, this advantage is worth more to wealthy investors than to small stockholders. Institutions (which usually pay relatively little in taxes, if they

are not exempt altogether) are also in a class with the small stockholder as regards benefits from stock dividends.

Inconvenience of Recurrent Small Stock Dividends

One difficulty with cashing stock dividends by small stockholders is the inconvenience and expense involved in selling an odd number of shares. Fractional shares are usually paid in cash, or the stockholder may elect to round out the fraction to a full share by buying the additional amount. But if he decides to sell one or two shares he may encounter a rather high brokerage rate, perhaps as much as 6%. In the case of over-the-counter stocks, to be sure, the price may be lower than for a full lot, and even on the exchanges the odd-lot surcharge would be limited to an eighth or a quarter of a point. The nuisance involved may also be annoying.

Commonwealth Edison seems to have made the best provision for taking care of these miniscule transactions. This company has appointed a bank as agent to sell the stock dividends for stockholders who indicate their preference for cash. Thus, the stockholder receives a check similar to his cash dividend check, and does not have to bother with making the small sale through his own broker or bank. Commonwealth is the largest utility paying cash and stock. It initiated the practice in 1958, with the stated intention of distributing nearly all of its earnings, via a basic $2 cash rate and a flexible annual stock dividend. In 1958 the stock dividend was a flat 2%, but with the subsequent increase in earnings 2⅓% was paid in 1959, and this year 2.40% is being paid on December 1. At the recent price around 65 the holder of Commonwealth enjoys a yield of 3.1% from the cash dividend plus 2.4% from the stock, a total of 5.5%.

Commonwealth Edison Not Exclusively a "City" Property

Because it is a "big city" utility serving Chicago, Commonwealth Edison has apparently been disregarded by many investors in their search for "growth utilities." But the fact may have been overlooked that a very substantial part of Commonwealth's revenues comes from a wide belt of suburban, industrial and agricultural territory outside the Chicago city limits—some 11,000 square miles, including 350 other municipalities.

The population of the area served is now estimated at 6,950,000—3.800,000 in Chicago and 3,150,000 in the outlying areas. Since 1954, while the population gain in Chicago has totaled 130,000, or a modest 4%, the *population of the company's territory outside Chicago climbed 820,000, or about 35%.*

Over-all population growth has been about 16%, a compound rate of approximately 3% a year, which compares more than favorably with the rate of about 1.8% for the United States as a whole. About half the company's revenues are obtained outside the Chicago area.

Rapid Expansion of Capacity

Commonwealth has been installing a number of big new generating units in recent years, increasing net capability from 3,859,000 kw in 1956 to 5,031,000 in 1959—a gain of 30% in three years. The average age of its 58 units has been reduced to about 14 years at present from 19 years a decade earlier. The result has been a marked increase in efficiency; one measure of this is the decline in btu's, or energy input, per kwh, from 12,586 in 1955 to 10,816 in 1959, a reduction of about 14%. This improved utilization of fuel has been reflected in a decline in the operating ratio from 70.1 in 1957 to 63.8 last year.

The company is continuing to install huge new generating units; two were put into service last year with a capability of about 315,000 kw each. This year the 180,000 kw atomic power plant was recently installed at Dresden; two conventional units of 305,000 kw will go into service during 1961-2 and 500,000 kw in 1963. In only four years generating capacity will be increased by about 50%.

Thus the company is providing for anticipated rapid growth in future. Compared with $101 million already spent for construction in 1959 it plans to spend $160 million in 1960, $165 million in 1961, $175 million in 1962 and no less than $200 million in 1963. Of the $700 million cash thus to be required in 1960-63, some $475 million will be generated internally and the balance through bank loans or the sale of senior securities; no offering of common stock is planned.

The Dresden Atomic Plant

Commonwealth Edison and General Electric, together with a group of other participating utility companies, have been engaged for several years in constructing the large atomic energy plant in Dresden, Illinois. After an extended period of testing the plant was recently dedicated and placed in commercial operation. While it has been reported in the press that this plant will be able to produce power at approximately the same cost as coal-burning plants in the area, this claim is really somewhat misleading. The estimated costs of producing electricity apparently include the carrying charges only on the contract cost of $45 million paid to General Electric for building the plant, and even this excludes some research and development costs, and possibly even some indirect building costs, incurred by General Electric. Nevertheless, the new plant should prove far more efficient than the other major atomic plant being operated by Duquesne Light (in cooperative with the AEC) at Shippingport, Pennsylvania. The new GE Dresden plant uses a "boiling-water" type of reactor while the Westinghouse plant at Shippingport employs the "pressurized" type also incorporated in our atomic submarines.

Commonwealth's earnings have made a favorable showing this year. The company earned $2.03 in the first half compared with $1.89 in the first half of 1959, an increase of over 7% despite a poor showing in industrial sales. If adjustment is made for the spin-off of gas property (Northern Illinois Gas) the per share earnings figures show a 10% average annual rate of gain over the last five years—a better percentage than those shown for most of the Texas growth utilities. To be sure, part of this rapid improvement was due to a rate increase. The regulatory atmosphere in Illinois is favorable and the utilities in that state enjoy average earnings of 14% on common stock equity.

5 Utility Stocks Paying Cash and Stock Dividends

	Latest 12 Mos. Earnings Per Share	Recent Price	Price Range 1959-1960	Price - Earnings Ratio	1958 Cash Div.	1958 Stock Div.	1959 Cash Div.	1959 Stock Div.	1960 Cash Div.	1960 Stock Div.	1960 Cash Div. Yield	1960 Total Cash & Stock Div. Yield
Commonwealth Edison	$3.89[1]	65	68¼-55⅜	16.6	$2.00	2%	$2.00	$2⅓%	$2.00	$2.4%	3.0%	5.5%
Michigan Gas & Electric	5.61[2]	76	79 -62	13.5	1.70	3	2.00	3	2.00	3	2.6	5.6
Missouri Public Service	1.14[1]	20	22¼-17	—	.72	2	.72	2	.72	2	3.6	5.6
New Jersey Natural Gas	1.60[2]	25	26¼-20½	15.6	.75	2	.85	2	.90	2	3.6	5.7
Rochester Gas & Electric	3.11	43	50⅜-39⅞	13.8	1.60	—	1.80	—	1.80	3	4.1	7.1

1—12 months to August 31. 2—12 months to June 30.

New Legislation in New York State Allows Utility Stock Dividends

Rochester Gas & Electric now also pays in cash and stock, with a resultant yield of over 7% on the basis of the present 3% annual stock dividend. President Ernest J. Howe, in a talk before the New York Society of Security Analysts in January, stated in regard to the new dividend policy: "The company has required large and frequent issues of rights during the last ten years in connection with the sale of additional common stock to stockholders to help in the financing of its increasing construction. It is believed that the new stock dividend policy should reduce the amount and frequency of rights offerings in the future. The stock dividend will be received by stockholders as a tax-free distribution, whereas, if handled as an additional cash distribution followed by an issue through rights, the stockholders would be taxed at their full rates on the added cash dividend income. Thus, it is believed that the plan should provide substantial benefit to stockholders as well as being helpful in financing the growth of the company."

The 1960 stock dividend was made possible by a new law in New York State which removed the prohibition from paying such dividends, although it required that declarations should be approved by the New York State Public Service Commission. Presumably the company will again apply in November this year for permission to issue a stock dividend early in 1961. Rochester does not cash entire shares like Commonwealth does, but only fractions, as such a practice would require registration of the new stock and issuance of a prospectus.

Residential Load is Heavy

Rochester Gas & Electric supplies gas, electricity and steam to an area extending about 70 miles along the south side of Lake Ontario and up the Genessee River to the Pennsylvania border. Rochester, the third largest city in New York State, is considered a very stable community, in which employment is less subject to fluctuation than for the nation as a whole. The presence of Eastman Kodak and some other plants of similar character has assembled in this area a large body of skilled labor with wage rates considerably higher than the national average. Moreover, Rochester Gas & Electric has only a moderate industrial business—21% of electric revenues and 6½% of gas—as compared with some other big city utilities. On the other hand, residential customers contribute a high 43% of electric revenue and 80% of gas. In this cold weather area househeating is important in the gas figure.

While this company has not been generally regarded as a "rapid growth" utility, its progress has been good. Revenues as revently as 1949 were less than $30 million, but are currently around $75 million, or 2½ times as large. Share earnings did decline in 1950-51 and the subsequent upward trend has been a little irregular, but 1959 earnings of $3.32 showed a gain of 121% over 1951 and 67% over 1955. The sharp gain of 13% in 1959 reflected in part the effect on the gas business of colder-than-normal weather, and earnings this year are expected to settle back to perhaps $3.15 a share. Moreover, earnings now include the flow-through of tax savings, as required by the Public Service Commission, which amounted to 40¢ a share in 1959.

Prospects for Future Growth

Prospects for future growth in the Rochester area look excellent. Last year the new St. Lawrence Seaway got off to a rather slow start but may be expected to provide a considerably stronger impact. More importantly, the impressive growth characteristics of leading industrial concerns in the vicinity—Eastman Kodak, duPont, Bell & Howell, Bausch & Lomb, Taylor Instruments, Ritter Dental, Haloid Zerox, Friden, Burroughs and others—add considerable attraction to the utility that serves them. The gas business may be expected to expand both territorially, into outlying areas, and intensively as larger space-heating loads are developed. Over the next decade as a whole the management expects an increase of some 80% in total revenues.

The company does expect to receive some low cost power from the Niagara Falls hydro projects now being constructed by the New York State Power Authority. Nevertheless it is planning to spend over $100 million on construction including generating capacity, during the years 1960-64 inclusive.

Three Attractive Small Utilities

Two smaller companies which offer attractive yields with their combined cash and stock dividends have also enjoyed much better than average growth. **Michigan Gas & Electric,** with annual revenues of $8 million, supplies electricity and gas to a number of communities and rural areas in Michigan. Principal cities in its service area are Marquette, Holland and Niles, Three Rivers, Dowagiac, and Paw Paw. One county in the *(Please turn to page 205)*

Looking for a buying point in . . .

★ B.F. GOODRICH
★ JOHNS-MANVILLE
★ INGERSOLL-RAND
— 3 "Blue Chips"

By ROBERT B. SHAW

AT this time most practical investors who have put their house in order, are searching for new investment opportunities against the time when the market will reach realistic purchasing levels.

Prior to the first of the year, buying in blue chips pushed prices up to unwarranted heights, based on earnings probability over the next year or two, and since that time various issues have been carried down some 30%—40%—50%—or more—and in many instances, this badly needed correction has not yet been fully completed. However, there are a number of top level companies, aggressive and well managed, that should now be carefully scrutinized in a search for unusual investment values to be purchased when the proper buying point is reached.

Timing of course is a vital factor today, in a

clouded economic outlook, and with a stock market that is going through the process of revaluation, which has a tendency to pull down the whole list. Nevertheless, this is the time to take a hard look at companies which will offer outstanding investment values when the market turns. Such a policy is particularly desirable right now, when the market is bound to ignore intrinsic values or changes in a company's activities that in the future may lead to extraordinary success for the company and profitable opportunities for the investors.

In this article, we describe three stocks in that category which merit close watching for purchase when they reach realistic buying levels. This procedure follows the ground rules of sound investment planning, and can be very rewarding.

The Changes at Goodrich

Take **B. F. Goodrich,** for example. In general, investors classify the company as essentially a tire supplier to the automotive industry, with a few sidelines that have developed out of its interest in rubber.

Income Data

	Net Sales	Income Taxes	Net Income	Net Profit Margin	Earnings Per Share	Cash Earnings Per Share	Div. Per Share
	(Millions)						
B. F. GOODRICH CO.							
1960 (1st 9 months)	$587.6	$23.6	$24.1	4.1%	$2.68	$ —	$2.20[1]
1959	771.5	35.8	37.5	4.8	4.18	6.60	2.20
1958	697.3	35.1	35.4	5.0	3.95	6.32	2.20
1957	734.6	36.5	39.3	5.3	4.40	6.75	2.20
INGERSOLL RAND CO.							
1960 (1st 6 months)	92.3	—	12.2	13.2	2.02	—	4.00
1959	161.5	24.2	24.6	15.2	4.06	4.56	4.00
1958	170.5	25.0	36.3	15.4	4.36	4.78	4.00
1957	205.4	35.5	36.0	17.7	6.01	6.35	4.00
JOHNS-MANVILLE							
1960 (1st 9 months)	273.9	18.1	21.1	7.7	2.49	—	2.00
1959	377.5	21.8	31.6	8.3	3.73	5.71	2.00
1958	331.7	16.8	23.3	7.0	2.82	4.07	2.00
1957	308.3	11.5	17.7	5.7	2.48	4.50	2.00

1—Estimate of annual rate.

In actual fact, however, Goodrich is well entrenched in the consumer goods field, and is rapidly building up its investments abroad—two areas of activity that the stock market is valuing very highly today, where it is fully aware of the facts.

Take consumer markets first. About 45% of Goodrich's business is the sale of tires for automobiles. However, more than half of its tire business is in the replacement market—a much more lucrative, and far more extensive market than original equipment business. By illustration, Goodrich supplies only a small fraction of the tires for the approximately six million new cars turned out by the car makers. But in the replacement field it services a market that includes most of the sixty-odd million automobiles on the highways.

To tap this potential, the company turns out five brands of its own, and two additional tire makes under private labels, and merchandises its products through 475 company-owned retail stores. Furthermore, these retail outlets not only handle tires, but also serve as general discount-type stores for other merchandise ranging from outdoor summer furniture to outboard motors and bicycles.

This direct contact with the consumer gives Goodrich a stability in part of its earnings that generally goes unnoticed by the average investor.

In addition to its activities in consumer markets Goodrich has been expanding its activities abroad. Its affiliates or subsidiaries now operate in 17 different countries, and the company is accelerating foreign representation. Recently, Goodrich announced that it would build a new vinyl plant in Australia, a Geon vinyl plant in Columbia and tire plants in the Near East, the Far East and Latin America.

Thus expansion in these areas is aimed at both the foreign rubber market, which is growing twice as fast as the domestic market, but also at the foreign chemical and plastics business, which offers high returns both currently and in the future.

In addition to these major steps, Goodrich is also the most diversified of the major tire producers, having recognized early that diversification was the only solution to the sharp cyclical swings in the rubber market. It includes among its product lines industrial hoses, belting, clothing, medical supplies, flooring, and a broad line of chemical products and plastics. Principal among these is Koroseal, a well known trade name in plastics.

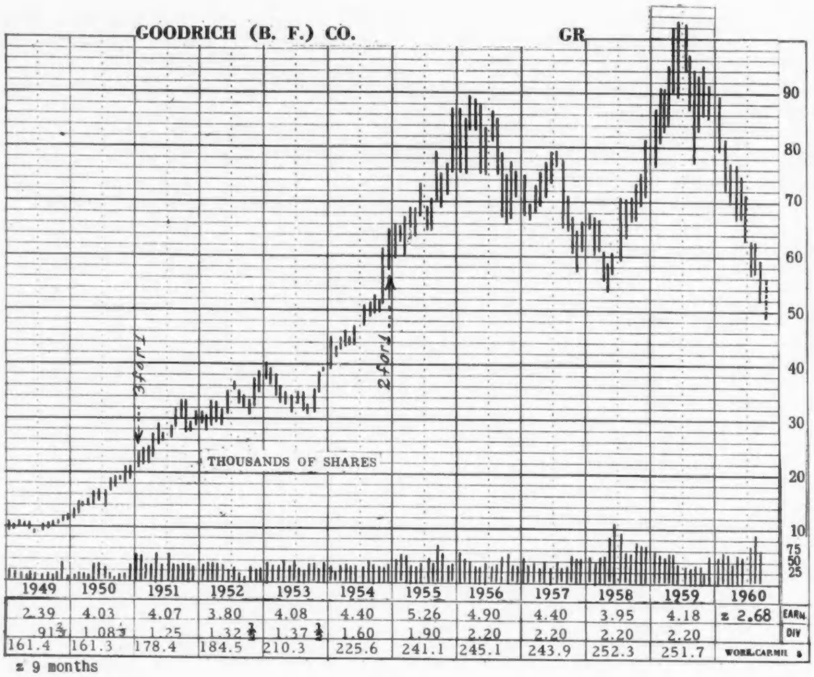
Chemicals and Joint Ventures

Although chemical operations have been subject to the same drawbacks recently that have affected the major chemical companies, Goodrich has established itself more firmly in this field than any other rubber company. Moreover, management has had the foresight to ally itself through joint ventures with other companies that contribute both finances and trained personnel to successful endeavors. Goodrich-Gulf Chemicals, jointly owned with Gulf Oil is a prime example. This company, incidentally, operates the nation's largest butadiene plant, and recently performed the signal feat of synthesizing true natural rubber—a product which is far superior to synthetics.

Current Picture

Despite these promising avenues, Goodrich is down about 50% from its high of 103—a much more severe decline than the market in general. In part, this can be explained by the general opinion that Goodrich is a highly cyclical stock (a notion less true today than in the past). But it is also partly a reflection of the lack of earnings progress the company has shown since 1955. What investors are not aware of, however, is the fact that the sales decline that began in 1956 has been arrested, and that in fact revenues were at a record high in 1959 and will climb even further in 1960. Sales in the first half of this year were $404 million against only $382 million last year, and those were the highest on record.

However, earnings have been penalized by high capital expenditures, the costs of starting up new



Ingersoll-Rand's Basic Value

Goodrich derives its strength as a long term investment from its broadscale diversification both at home and abroad. **Ingersoll-Rand,** on the other hand, represents real value because of its exceptional financial strength. Proof of this is found in the maintenance of a $4.00 annual dividend payout despite earnings in the last two years that just barely covered disbursements. At the end of 1959, Ingersoll-Rand's working capital equalled $20 for each share of stock. Cash alone exceeded all of the company's liabilities by $5 million.

The stock, at the moment, is sharply depressed because of the highly cyclical nature of the demand for its products. In a business slowdown, heavy machinery producers are usually the first and hardest hit. But, whereas many machinery producers teeter on the brink of disaster in such periods, Ingersoll-Rand is able to fall back on its extremely strong finances, carefully husbanded by management against such contingencies. When the current period of adversity has passed, a strong recovery can be expected.

operations and the general slowdown in business that has hit all chemical operations. Nevertheless, Goodrich has a ten year record of earning over 10% on its invested capital. With the large investments it is now making abroad, therefore, future earnings should look better. Moreover, it should be pointed out that although the company is funnelling huge funds abroad, it does not at present consolidate its earnings from overseas. Hence a substantial hidden reserve of earnings is being created that will some day redound to the benefits of Goodrich stockholders.

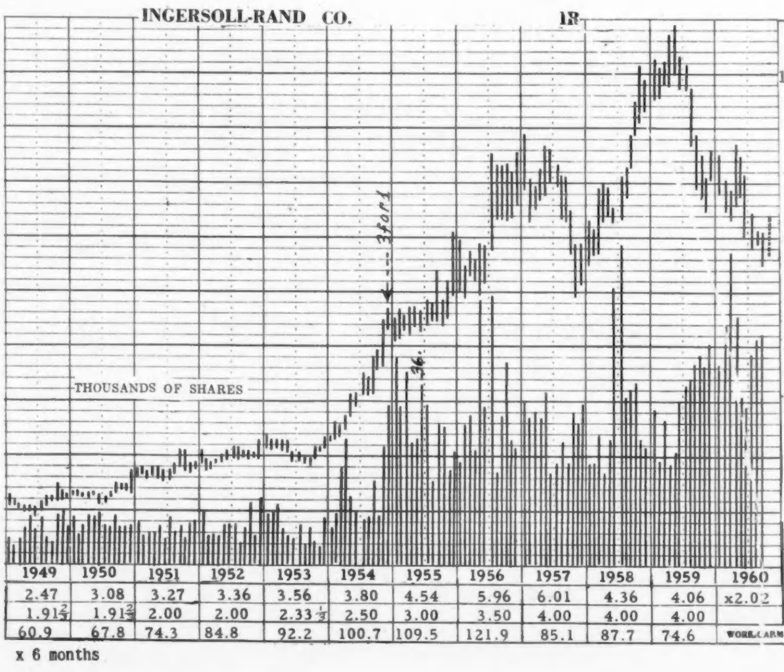
Another reason for the large decline in the price of the stock is the fear that the company's huge expansion program ($50 million annually is contemplated) may necessitate additional financing in the near future. Some such financing may be necessary of course, but with a cash flow of over $60 million a year to cover only about $20 million in dividend requirements, it is apparent that Goodrich can generate a substantial portion of its requirements internally.

Long Range Opportunity

At 54, the $2.20 annual dividend provides a modest 4.0% return. Though not exciting, it certainly provides a yield in line with the rest of the market, while the stock at present levels is approaching a point that fails to give full weight to its true long range potential.

Basic Position Sound

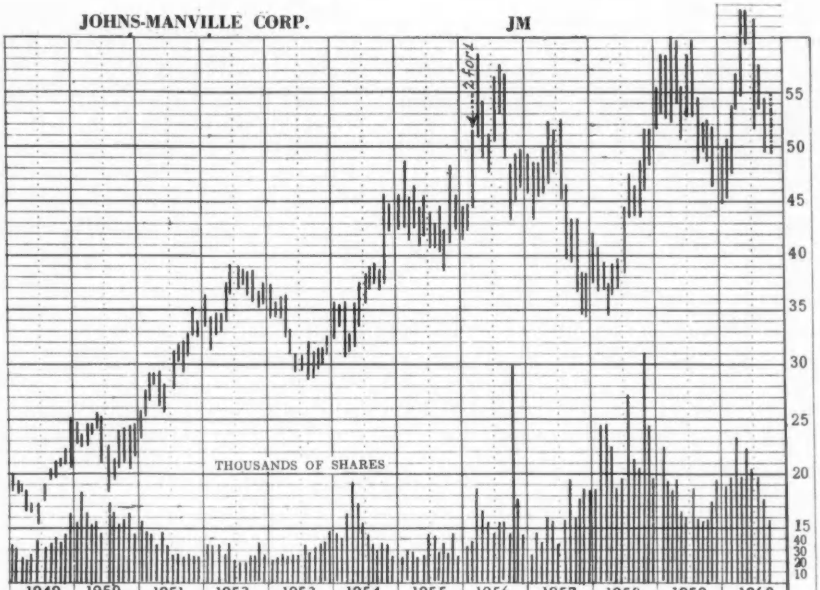
On a long range basis, therefore, Ingersoll looks like a particularly attractive purchase anywhere below 70. The company is probably the best known



domestic producer of air and gas compressors, pneumatic tools, rock drills and related machinery. Major industries supplied include building, mining, quarrying and oil drilling. A merger with Black & Decker, one of the principal manufacturers of portable electric tools, has been under recurrent discussion, and while it is not in the cards at present Ingersoll does own about 1½% of Decker's stock. Ingersoll has always maintained an extremely conservative financial condition and is substantially debt-free.

Ingersoll derives an apparently substantial but undisclosed proportion of its sales dollar from foreign operations. It has not, however, so far joined the parade of other machinery manufacturers in establishing foreign plants; manufacturing abroad, confined principally to England and Canada, is relatively limited, and most international business handled through direct sales offices. A more aggressive policy in this regard might be desired, but the company has been accustomed to making progress carefully.

Many mathematical projections of future rates of growth in road building, utility outlays and other areas of construction have been made. At best these are informed guesses, but an impressive pattern of long-term expansion in these fields can hardly be doubted. And Ingersoll has demonstrated a rather consistent ability to pass a relatively high proportion of sales through to the bottom line of its income statement.



1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	
2.43	3.61	3.88	3.57	3.10	2.62	3.67	3.50	2.48	2.82	3.73	z 2.49	EARN
1.25	1.75	2.12½	2.12½	2.12½	2.12½	2.12½	2.25	2.00	2.00	2.00		DIV
27.7	32.4	27.9	27.9	26.2	29.3	37.2	41.2	41.8	81.2	98.1		WORK.CAP.MIL $

z 9 months

Current Evaluation

The company's merits and problems must be evaluated, of course, in terms of current price. At around 72 this is already substantially below the 1959-60 high of 109. It is true that the existing $4 dividend rate is only being very narrowly covered by estimated earning, and continuation of the same rate next year cannot be taken for granted. An even lower rate would, however, still provide a satisfactory yield in the current market. It is probable that a capital goods manufacturer, like Ingersoll, would suffer in a further market decline, and no early recovery is indicated in any case, but on a long-range basis it is well worth consideration for future investment.

Johns-Manville Less Volatile

In contrast with Goodrich and Ingersoll Rand, **Johns-Manville,** best known as a manufacturer of of asbestos building materials, is not available at such a sharp discount from its recent price. This issue, in fact, shows an unusual stability and has not sold above 60 or below 30 for many years. This, in turn, reflects membership in a basic and steadily expanding industry and a relatively constant earnings record. Net income has fluctuated more widely, nevertheless, than sales, which have increased steadily every year since 1949, with the exception only of a minor set-back in 1957.

The world's largest processor of asbestos products, Manville manufactures wallboard, shingles, roofing, floor tiles, asphalt and numerous related items. Consideration of these products naturally leads to a discussion of the building industry, their principal market. Residential construction is, in large measure, tied up with political factors, including the manipulation of interest rates and the availability of credit on the part of public agencies. The indicated rate of construction has recently declined slightly, to an annual basis level of about 1.1 million starts. It is currently a subject of partisan debate whether this easing off reflects a substantial satisfaction of demand or the policies of the present administration; considerable evidence supports the former view. Housing demand naturally follows the rate of family formation closely, and at the present time this is somewhat reduced as the tailenders of the depression generation are just coming into marriageable and child-bearing age.

If this factor is somewhat unfavorable for the immediate housing outlook, it will be reversed very shortly. Within only one or two years the early arrivals among the war-time baby boom will be entering maturity and creating a sharp acceleration in the demand for housing.

Growing Diversification

As an offset to the decline in new construction, however, Johns-Manville is a large beneficiary of the improvement of existing buildings, a process which goes on continuously and may even be stimulated when construction wavers. But beyond this the company has advanced a program of diversification substantially in recent years, and is now believed to derive less than half of its sales dollar from building. Other *(Please turn to page 207)*

FOR PROFIT AND INCOME

November Markets

As is so in most months, market trends in November hinge on prevailing conditions and sentiment. The record shows no significant "seasonal bias" for the month as a whole. November net gains for the industrial average have moderately exceeded the number of declines. The reverse has been so for rails. However, in years when numerous stocks are well down from earlier highs, as is so in the present instance, tax selling has been a factor, with more of it in late November and December than earlier. It puts tax-sold stocks in a technical position to rally. That, plus year-end reinvestment demand and well-established tradition, usually brings varying degrees of improvement in stock prices in late December and early January even under bear-market conditions. But when the environment is not strongly bullish, the "stage" has to be set first by easing in the market. It has often been seen in roughly the second half of November, if not sooner, and portions of December. There will be relatively heavy tax selling this year, probably general "trading up" in tax-switching operations, considerable selling for cash, no strong inclination to shift money from typical cyclical stocks into similer issues. It should not be surprising if most stocks sell lower within the period between now and Christmas.

Another Look

Basis for rise in Shattuck was cited here at 15¾ in our July 30 issue. It is now at 18⅛, off from recent new high of 20⅛. Stay with it . . . In the August 13 issue Metro-Goldwyn-Mayer was recommended at 33. It since reached 40 and is currently at 35¾. We think it should work higher . . . In the August 27 issue: Decca Records at 33, currently at 36 and still reasonably priced; also Falstaff Brewing at 30, now at 34⅝. Stay with it . . . In the September 10 issue: Consolidated Cigar at 31 and General Cigar at 33. Subsequent gains at best recent levels were slight, the present net change virtually nil. Both still have better-than-average potentials . . . In the September 24 issue: A re-recommendation of Reynolds Tobacco at 78, now 81¼, off from

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
General Instrument	Quar. Aug. 31	$ .32	$ .26
Int'l. Business Machines	9 mos. Sept. 30	6.51	5.57
Scott Paper Co.	Quar. Oct. 1	.79	.72
Sheaffer (W.A.) Pen Co.	6 mos. Aug. 31	.46	.24
United Air Lines	Quar. Sept. 30	1.97	1.72
Walker (H.) Good. & Worts	Year Aug. 31	2.91	2.76
Amer. Tel. & Tel. & Subs.	12 mos. Aug. 31	5.45	5.05
Great Atlantic & Pac. Tea Co.	26 weeks Aug. 27	1.21	1.00
Winn-Dixie Stores	12 weeks Sept. 17	.55	.50
Lukens Steel Co.	39 weeks Sept. 10	3.49	3.24

recent high of 86. We suggest long-pull buying only on dips. Also Corn Products at $66\frac{3}{8}$, following a July 2 recommendation at 57, and now at $68\frac{5}{8}$. It remains a buy on dips. Also General Finance at 34, now little changed at 35. It remains a sound long-term income-growth stock . . . In the October 8 issue: Brunswick Corp. at 70, now at $74\frac{1}{2}$; Woolworth at 67, now unchanged; Hart, Schaffner & Marx at 26, now at 24; Bobbie Brooks at $28\frac{5}{8}$, now at $29\frac{1}{8}$; and Spiegel at $35\frac{3}{4}$, now at $37\frac{3}{4}$. Brunswick may react further from recent high of $81\frac{5}{8}$, following the 2-for-1 split news. Stay with all five issues . . . In the October 22 issue: Deere only for the long term at 44, now 45; Gerber Products at 55, now little changed; and Reliance Insurance at 53, now $57\frac{1}{2}$. Basis for these latest previous buying recommendations is unchanged.

Motion Pictures

Basis for improvement in the market position of motion picture stocks was cited here some weeks ago, and is unchanged. In addition to Decca Records (with excellent and rising profits from its owned Universal Pictures) and Metro-Goldwyn-Mayer, there appear to be substantial speculative potentials in Twentieth Century-Fox Film over a period of time. While still well under best past levels, 1960 earnings should be materially above 1959's reduced $1.78 a share, more than amply covering the $1.60 dividend. The company has recently begun releasing its post-1948 pictures for television showing. It has "wrapped up" the deal for sale of its main studio property for $43 million and will lease back a moderate portion of it for its film producing needs. The proceeds will be used to retire some of the $31.8 million long-term debt and to re-acquire a sizable amount of the common stock via a tender offer, following re-acquisition of 337,100 shares in 1958. These moves will bolster future earnings per share. While possibilities in new picture are always uncertain, lease income from increasing releases of post-1948 pictures to TV can be counted on and will be important. The stock stands currently at $36\frac{1}{2}$ in a 1960 range of $43\frac{3}{8}$-30.

Air Lines

On speculative buying, air line stocks had a good 1958-1959 rise —but that was that. It is worth noting that the group's 1959 top was only a fraction above a top made four years earlier in 1955 and little more than 8% above a high attained as far back as 1945. This year's best level was roughly 20% under the 1959 high, the poorest level only some 11% above the 1958 low. The group has long been largely ignored by institutional funds because of the basic fact of Federal-regulated rates and routes, and of limited control over costs. It now stands much nearer this year's low than high. There are still optimists who look for long-term profit growth. They have been doing so for years, but it still remains "around the corner." There is some opinion that the stocks are now pretty well sold out. While that might be so, we are not sure about it. In any event, we do not see worthwhile upside potentials now and continue to prefer speculations in other fields. Cost of shifting to jet transports has been huge, with more of it to come—and whether there will ever be an adequate pay-off on this capital investment is unclear. Growth of traffic this year has been disappointing. The industry's aggregate 1960 profits will make a dismal showing—probably the worst in a decade or so.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
King-Seeley Corp.	Year July 31	$4.66	$4.78
Collins & Aikman Corp.	6 mos. Aug. 27	.86	1.22
General Electric	Quar. Sept. 30	.65	.82
Great Northern Rwy.	9 mos. Sept. 30	2.41	2.80
United Shoe Machinery	6 mos. Aug. 31	2.07	2.22
Grand Union Co.	Quar. Aug. 27	.36	.44
Western Union Telegraph	8 mos. Aug. 31	1.09	1.56
Aro Equipment	Quar. Aug. 31	.64	.68
Marine Midland Corp.	Quar. Sept. 30	.47	.50
Safeway Stores, Inc.	12 weeks Sept. 10	.66	.70

General Tire

Profit of General Tire & Rubber Co. reached a record $4.84 a share last year; and the stock got to a high of $86\frac{3}{4}$ in a rise of over 370% from its 1957 low, largely on enthusiasm about the company's position in rockets and propellants through its 84% ownership of Aerojet-General. But for the nine months ended August 31 earnings fell about 24%, although sales showed a gain. Now around 46, the stock is off some 46% from its high. This can fairly be called an "inflated" company that investors should steer clear of. It is in tires and other rubber goods, the rocket-missile field, plastics and chemicals, operation of television and radio stations, and wrought iron through control of A. M. Byers. Finally, there is much debt and preferred shares ahead of the common, making the latter a high-leverage issue. This situation illustrates how rapidly a "glamour stock" can lose popularity. There are many other examples in recent and old market history.

Mutual Funds

Open-end investment companies are providing less support for the market now than formerly. In the first place, they have less new money to invest. In the second place, they are employing it more cautiously and conservatively. The excess of sales of mutual-fund shares over redemptions in September was about $106.2 million, against $134.2 million a year ago. That was an improvement over August, when it was down to $81.2 million. Mutual funds do not "make the market" to anything like the extent some people imagine, even when conditions are highly in their favor. Few get results significantly better than could be had simply by spreading holdings among the 30 Dow industrials.

Inside The Market

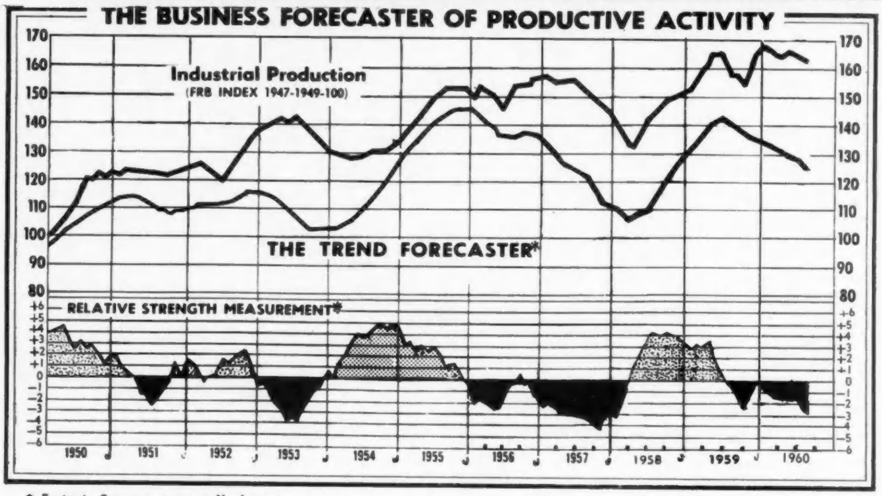
In recent sessions up to this writing few stock groups have shown conspicuous strength or weakness. On the strong side,

(Please turn to page 212)

the Business

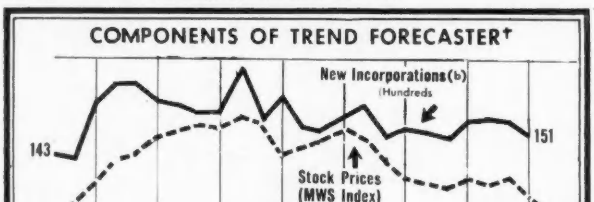
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The components of the Trend Forecaster have receded further in recent weeks. Stock prices continued to decline sharply during October, housing starts fell to a new low in the latest period, both new incorporations and nonresidential construction contracts turned down after previous strength, hours worked continued the decline that began in February and raw industrial commodity prices reached their lowest level in more than a year. Only new orders and liabilities of business failures (inverted) improved; the former was helped by heavy defense contracts and the latter was rebounding from a previous sharp decline.

Reflecting the preponderant weakness in the indicators, the Relative Strength Measure fell to minus 2.9, only a hairbreadth from the minus 3 area, penetration of which would signal that an important economic contraction lies ahead. This measure has sometimes recovered after a close approach to the minus 3 level (notably in 1951 and 1956) and its action should be watched closely at this crucial period for the economy.

Analyst

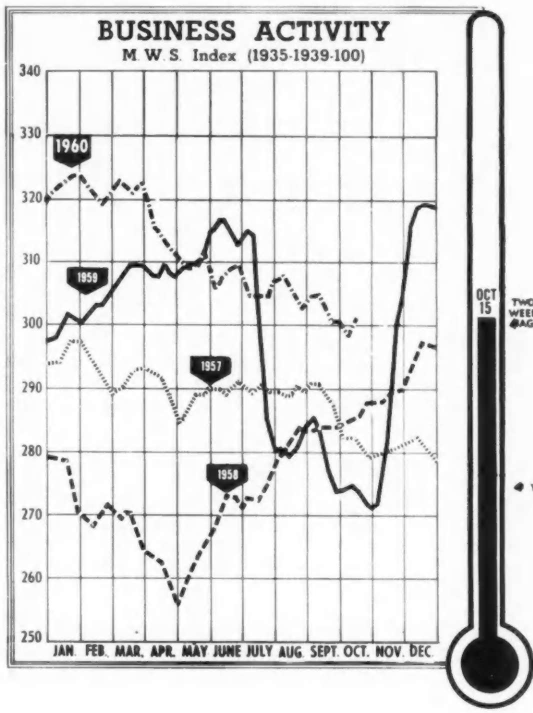
CONCLUSIONS IN BRIEF

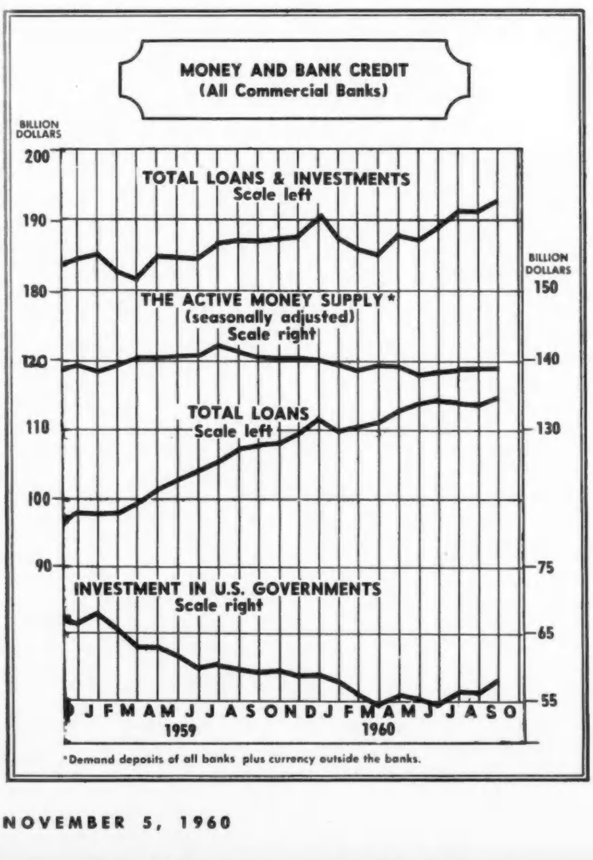
PRODUCTION — Gradual decline in output has now encompassed a broad range of industries. Look for some further downdrift during balance of year; auto, paper and chemical industries are temporarily vulnerable because of heavy inventories.

TRADE — Consumer spending now running well under the peaks reached last Spring. Demand is expected to stabilize around present levels although sellers of some big-ticket items will find difficulty in matching recent sales levels.

MONEY & CREDIT — Money rates drop on a broad front as borrowing slackens and the Federal Reserve continues to loosen the credit reins. Further business softness will continue to push interest rates lower no matter who is elected.

COMMODITIES — Prices of both raw materials and finished goods are moving down. Excess capacity and low-priced foreign goods will continue to force prices lower as businessmen struggle to attract the cautious consumer.





*Demand deposits of all banks plus currency outside the banks.

ALTHOUGH the labels may differ—ranging all the way from rolling readjustment to outright recession—recent business developments make it clear that the economy has slackened off a bit in the third quarter and that some further correction may lie ahead. This prognosis, however, is not a signal for taking to the storm-cellars, but an occasion for calm appraisal of the outlook to determine where we may be heading.

Current business trends have admittedly not proceeded far enough to permit conclusive judgments regarding the duration or intensity of any downturn. On the basis of presently available evidence, however, it seems likely that only moderate economic adjustments will be necessary to correct the imbalances that now exist.

Perhaps the best clue to what lies ahead is contained in the figures on manufacturers new orders and shipments. Incoming orders have been running below shipments since December of last year and it is only by falling back on order backlogs that producers have been able to maintain a relatively high rate of activity. These backlogs have now declined to their lowest level since early 1958 and it is evident that shipments—and consequently production—will have to be cut back to the level of incoming orders. **It should be noted, however, that the unfavorable gap between orders and shipments was only \$300 million in August, as against a shortfall of more than \$1.6 billion in new orders when the 1957 contraction was just about getting under**

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Sept.	162	165	157
Durable Goods Mfr.	1947-'9-100	Sept.	166	169	158
Nondurable Goods Mfr.	1947-'9-100	Sept.	160	162	159
Mining	1947-'9-100	Sept.	126	128	119
RETAIL SALES*	$ Billions	Sept.	18.0	18.2	17.8
Durable Goods	$ Billions	Sept.	5.7	5.8	5.8
Nondurable Goods	$ Billions	Sept.	12.3	12.4	12.0
Dep't Store Sales	1947-'9-100	Sept.	142	144	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	Aug.	29.8	29.2	29.0
Durable Goods	$ Billions	Aug.	14.3	13.8	14.0
Nondurable Goods	$ Billions	Aug.	15.5	15.4	15.0
Shipments*	$ Billions	Aug.	30.1	30.4	29.3
Durable Goods	$ Billions	Aug.	14.4	14.7	14.0
Nondurable Goods	$ Billions	Aug.	15.7	15.7	15.3
BUSINESS INVENTORIES, END. MO.*	$ Billions	Aug.	93.1	93.3	89.5
Manufacturers'	$ Billions	Aug.	54.9	54.9	52.1
Wholesalers'	$ Billions	Aug.	13.0	13.0	12.6
Retailers'	$ Billions	Aug.	25.2	25.4	24.8
Dept. Store Stocks	1947-'9-100	Aug.	169	167	160
CONSTRUCTION TOTAL—†	$ Billions	Sept.	55.4	55.0	53.1
Private	$ Billions	Sept.	38.9	38.8	38.4
Residential	$ Billions	Sept.	21.7	21.8	22.3
All Other	$ Billions	Sept.	17.2	17.0	16.1
Housing Starts*—a	Thousands	Sept.	1077	1295	1509
Contract Awards, Residential—b	$ Millions	Sept.	1277	1433	1466
All Other—b	$ Millions	Sept.	1841	1863	1592
EMPLOYMENT					
Total Civilian	Millions	Sept.	67.8	68.3	66.3
Non-farm*	Millions	Sept.	53.2	53.3	52.0
Government*	Millions	Sept.	8.5	8.5	8.1
Trade*	Millions	Sept.	11.7	11.8	11.5
Factory*	Millions	Sept.	12.1	12.2	12.1
Hours Worked	Hours	Sept.	39.6	39.8	40.3
Hourly Earnings	Dollars	Sept.	2.29	2.28	2.22
Weekly Earnings	Dollars	Sept.	90.68	90.74	89.47
PERSONAL INCOME*	$ Billions	Sept.	408	408	384
Wages & Salaries	$ Billions	Sept.	275	275	259
Proprietors' Incomes	$ Billions	Sept.	61	60	58
Interest & Dividends	$ Billions	Sept.	42	41	38
Transfer Payments	$ Billions	Sept.	30	29	27
Farm Income	$ Billions	Sept.	16	16	14
CONSUMER PRICES	1947-'9-100	Sept.	126.8	126.6	125.2
Food	1947-'9-100	Sept.	120.2	120.1	118.7
Clothing	1947-'9-100	Sept.	110.5	109.3	109.0
Housing	1947-'9-100	Sept.	132.0	131.5	129.7
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Sept.	110.3	110.3	112.4
Bank Debits*—g	$ Billions	Sept.	89.3	101.4	95.3
Business Loans Outstanding—c	$ Billions	Sept.	32.6	32.0	30.3
Instalment Credit Extended*	$ Billions	Aug.	4.0	4.2	4.1
Instalment Credit Repaid*	$ Billions	Aug.	3.9	4.0	3.6
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	6.5	3.1	5.7
Budget Expenditures	$ Billions	Aug.	6.8	6.2	6.3
Defense Expenditures	$ Billions	Aug.	4.0	3.8	3.7
Surplus (Def) cum from 7/1	$ Billions	Aug.	(3.4)	(3.0)	(3.9)

PRESENT POSITION AND OUTLOOK

way, and this is one indication that today's imbalances are less severe than they were in the last recession. Of course, incoming orders may slip further if the business contraction continues. However, an examination of the sources of such orders, namely, government and consumer demand, capital spending, construction and inventory accumulation, reveals no basis for any severe decline.

State and local commitments will continue their steady rise in fiscal 1961 and defense orders and outlays will also increase substantially, in contrast to the reduction they experienced in 1957. In inventories, the situation is certainly sounder today than it was three years ago. There has been little or no addition to stockpiles in recent months and the ratio of inventories to sales is lower than it was in the Fall of 1957. With stocks of goods not far from optimum levels, cuts in output may reduce such holdings to the point where a revival of inventory accumulation will take place. In the case of construction, the picture is somewhat mixed. Residential building is down to a point where it should be resistant to further decline but other types of construction may fall off somewhat from their present advanced levels. **Finally, neither consumer spending nor capital expansion has risen to the point where excesses have to be liquidated, so that setbacks in these fields could be relatively mild.**

Our review of the outlook for the major sectors of the economy has not revealed any basis for serious apprehension regarding the course of business in the months ahead. However, there is one area that will bear close watching and careful handling by the Government if serious trouble is to be averted. This is in the field of monetary policy, where our unfavorable balance of international payments has been highlighted by recent speculation in gold on foreign markets. Although our gold stock still tops $18.5 billion, foreign holdings of our short-term liabilities are substantially above this level so that any doubts abroad as to the soundness of our dollar could result in an increased

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter II	1959 Quarter I	1959 Quarter IV	1959 Quarter II
ROSS NATIONAL PRODUCT	505.0	501.3	486.4	487.9
Personal Consumption	329.0	323.3	319.6	313.6
Private Domestic Invest.	75.5	79.3	70.8	78.9
Net Exports	2.0	1.2	— 0.4	— 2.2
Government Purchases	98.6	97.5	96.4	97.7
Federal	51.7	51.8	52.5	53.7
State & Local	46.9	45.7	43.9	44.0
ERSONAL INCOME	404.2	396.2	389.0	384.5
Tax & Nontax Payments	49.9	49.2	46.5	46.2
Disponsable Income	354.3	347.0	342.4	338.3
Consumption Expenditures	328.5	323.3	319.6	313.6
Personal Saving—d	25.8	23.7	22.8	24.8
ORPORATE PRE-TAX PROFITS		48.8	44.8	51.7
Corporate Taxes		23.8	22.1	25.5
Corporate Net Profit		25.0	22.7	26.2
Dividend Payments	13.9	13.9	13.8	13.2
Retained Earnings		11.1	8.9	12.9
LANT & EQUIPMENT OUTLAYS	37.0	35.2	33.6	32.5

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Oct. 15	302.2	296.8	274.4
MWS Index—Per capita*	1935-'9-100	Oct. 15	217.6	213.7	200.6
Steel Production % cap.	% of Capacity	Oct. 22	54.6	55.4	13.1
Auto and Truck Production	Thousands	Oct. 22	184	167	140
Paperboard Production	Thousand Tons	Oct. 15	327	314	333
Paperboard New Orders	Thousand Tons	Oct. 15	309	340	286
Electric Power Output*	1947-'49-100	Oct. 15	269.7	265.7	251.5
Freight Carloadings	Thousand Cars	Oct. 15	653	646	581
Engineerings Constr. Awards	$ Millions	Oct. 20	400	445	261
Department Store Sales	1947-'9-100	Oct. 15	156	155	161
Demand Deposits—c	$ Billions	Oct. 12	58.5	58.1	60.8
Business Failures—s	Number	Oct. 13	326	343	252

PRESENT POSITION AND OUTLOOK

outflow of gold. Such doubts would certainly be raised if, in the event of a business setback, the next President were to resort to the palliative of large-scale Government spending and accompanying budget deficits. Such a course would raise serious and justifiable questions regarding the health of our currency and the accompanying flight from the dollar could turn what promises to be a mild adjustment into a serious crisis.

* * *

PERSONAL INCOME was still creeping upward in September, advancing $200 million at annual rates to reach a new high of $408.4 billion. In the latest month the gain was confined to income derived from interest and transfer payments while wages and salaries were lower, with declines among a broad range of industries more than offsetting an upsurge in auto payrolls.

With the consumer spending less and earning a little more in recent months, savings have increased and reliance on credit has dimished, improving the financial position of the public to some extent.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960 High	1960 Low	1960 Oct. 14	1960 Oct. 21
Composite Average	482.5	412.7	422.0	412.7L
4 Agricultural Implements	424.3	346.4	376.7	368.1
3 Air Cond. ('53 Cl.—100)	130.1	105.8	107.1	107.1
9 Aircraft ('27 Cl.—100)	1116.1	861.9	994.5	950.3
7 Airlines ('27 Cl.—100)	1044.6	769.7	802.7	769.7
4 Aluminum ('53 Cl.—100)	521.3	354.g	364.9	364.9
5 Amusements	286.7	209.3	279.8	266.2
5 Automobile Accessories	531.1	401.0	411.8	401.0L
5 Automobiles	157.0	100.0	104.7	100.0L
3 Baking ('26 Cl.—100)	39.1	34.9	37.2	36.8
4 Business Machines	1422.6	1172.3	1225.0	1172.3
6 Chemicals	809.6	657.3	681.4	657.3L
4 Coal Mining	36.0	27.9	28.9	28.2
4 Communications	234.4	204.5	213.7	204.5L
9 Construction	169.2	145.1	148.5	145.1L
5 Container	1064.7	845.5	876.8	845.5
5 Copper Mining	347.6	285.3	285.3	285.3
2 Dairy Products	188.5	146.8	183.9	180.7
5 Department Stores	156.7	135.2	142.4	138.0
5 Drugs-Eth. ('53 Cl.—100)	474.7	369.2	386.8	369.2L
5 Elect. Eqp. ('53 Cl.—100)	384.7	314.4	321.8	314.4
3 Finance Companies	755.9	648.8	749.2	735.8
5 Food Brands	504.1	419.3	481.8	481.8
3 Food Stores	270.8	232.1	237.7	232.1

(Nov. 14, 1936 Cl.—100)	High	Low	Oct. 14	Oct. 21
High Priced Stocks	299.9	262.7	269.9	262.7L
Low Priced Stocks	653.8	534.4	543.2	534.4L
5 Gold Mining	1206.1	810.8	1054.0	1206.1H
4 Investment Trusts	170.6	136.5	139.9	136.5L
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1128.3	1098.2L
7 Machinery	512.8	402.9	413.4	402.9
3 Mail Order	446.1	364.2	373.3	364.2
4 Meat Packing	286.8	223.9	237.6	232.1
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	136.4	132.4L
9 Metals, Miscellaneous	399.1	313.3	313.3	317.1
4 Paper	1237.1	867.3R	880.0R	880.0
16 Petroleum	736.9	609.0	676.7	661.8
16 Public Utilities	393.4	341.6	379.6	376.2
6 Railroad Equipment	99.8	76.9	78.8	76.9
18 Railroads	70.1	50.6	51.9	50.6
3 Soft Drinks	850.1	690.3	842.9	835.6
11 Steel & Iron	464.9	330.1	339.4	330.1L
4 Sugar	100.9	63.0	65.7	64.8
2 Sulphur	655.9	563.1	594.0	581.7
11 TV & Electron. ('27—100)	119.4	86.8	93.3	86.8L
5 Textiles	223.0	185.5	194.3	185.5
3 Tires & Rubber	255.9	175.8	183.5	175.8
5 Tobacco	216.3	182.5	216.3	210.7
3 Variety Stores	382.1	352.9	356.6	356.6
14 Unclassif'd ('49 Cl.—100)	295.1	229.2	242.4	229.2L

H—New High for 1960. L—New Low for 1960. R—Revised.

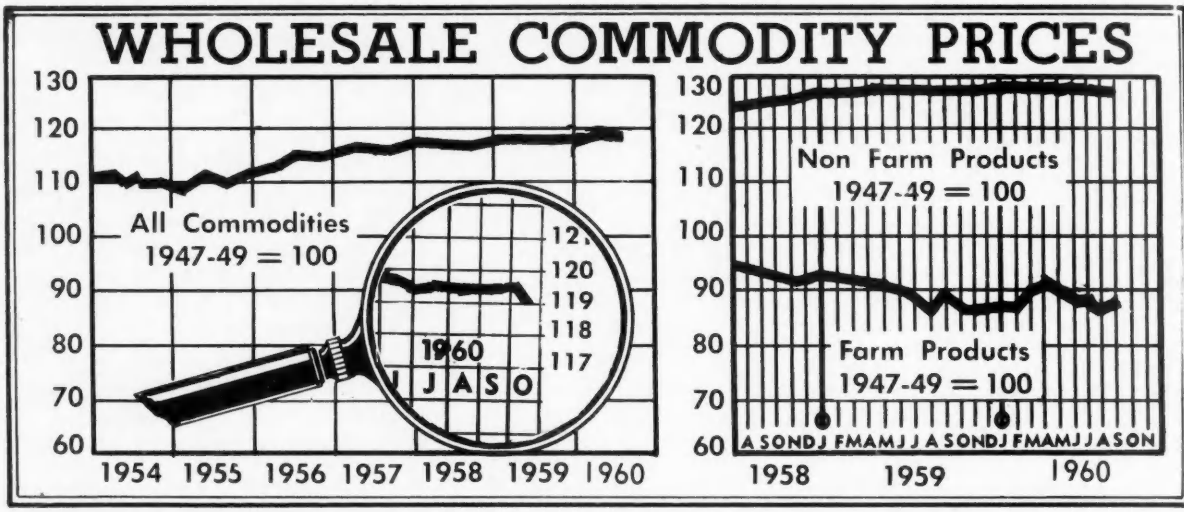
Trend of Commodities

SPOT MARKETS—Sensitive commodity prices continued to retreat in the two weeks ending October 21, and the BLS daily index of 22 such commodities lost 0.7% during the period to close at 83.2, its lowest level since early this year. Raw industrial materials were off 1.0%, with declines in copper scrap, hides, print cloth, rubber, steel scrap and tin. Only burlap and wool tops managed to advance.

Among the rank and file of commodities, some weakness also was evident. The BLS comprehensive weekly price index fell 0.5% in the fortnight ending October 18, hitting a new low for the year, with both farm and non-farm products seeking lower levels. Weakness in both business and commodities at the same time would confront business with serious problems in the shape of sharply reduced profit margins and falling inventory values.

FUTURES MARKETS—Commodity futures followed divergent courses in the two weeks ending October 21. Wheat, soybeans, lard, cotton, world sugar and cocoa were higher while oats, rye, copper, hides, rubber and wool declined. Corn and coffee were mixed with some months advancing while others were lower. The Dow-Jones Commodity Futures Index added 0.98 points to close at 144.43.

Wheat futures were higher in the period under review, the May option gaining 2½ cents to close at 200½ after reaching a new high for the life of the contract. Buying has been stimulated by indications that high export demand for wheat will continue and by the large movement of the bread grain into the support program. Unless prices rise sufficiently to induce producers to withdraw wheat from the loan, we may be faced with a shortage of "free" supplies.



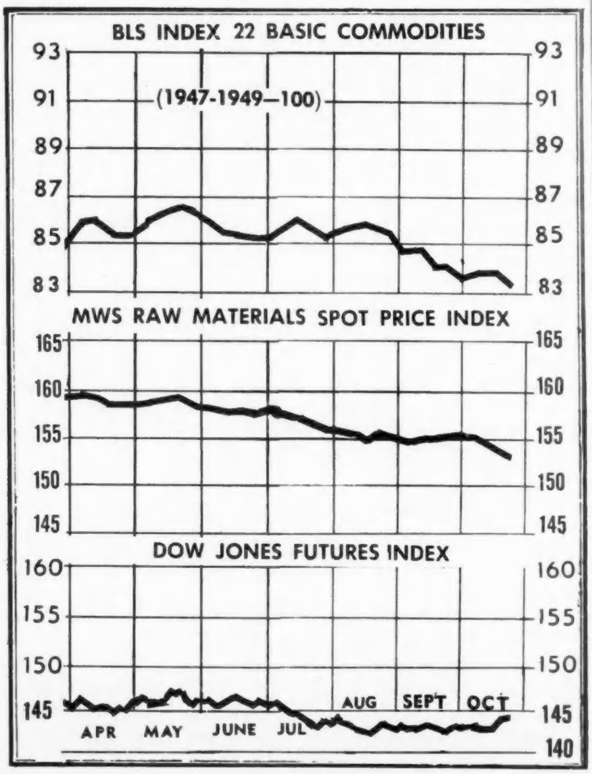
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Oct. 18	119.0	119.5	119.1	60.2
Farm Products	Oct. 18	87.7	88.4	86.5	51.0
Non-Farm Products	Oct. 18	127.6	128.1	128.4	67.0
22 Sensitive Commodities	Oct. 21	83.2	83.8	85.5	53.0
9 Foods	Oct. 21	75.7	76.0	74.7	46.5
13 Raw Ind'l. Materials	Oct. 21	88.6	89.6	93.8	58.3
5 Metals	Oct. 21	88.9	90.5	101.5	54.6
4 Textiles	Oct. 21	78.8	79.3	78.5	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	153.2	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	142.9	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



Inside Story Of The October 1960 Gold Rush Against The Dollar

(Continued from page 165)

the following can be listed:

Some speculative interests will probably have lost a bundle on the rapid decline of the London price, while others took their profits at the peak price.

Much more important, uncertainty about the future of the dollar has been intensified by the hectic gold price swing in London. Even minor economic, financial or other disturbances may, as a result, have consequences all out of proportion to their relative importance in the future.

The balance of payments deficit will be spotlighted more than ever and more efforts will have to be made in a corrective direction.

If interest rate differentials between N.Y. and Western Europe persist and the "hot money" outflow continues to lead to a gold drain on the U.S. stock, the Federal Reserve might be restricted in its use of the discount rate as a domestic cyclical credit tool. More emphasis may have to be placed on other policies to cope with unfavorable internal American economic conditions.

The policy of non-intervention by U.S. authorities (not selling gold to drive down the price) will be praised and criticized in a continuing debate. On the one hand, they prevented a further substantial loss of gold, which might have caused more uneasiness about the dollar. On the other the fact that the London gold price was allowed to rise so sharply and received such global notice, might in itself have caused more distrust concerning the present gold price and Dollar parity than an additional gold loss could have created. Again, however, the intervention itself could have been viewed as a sign of basic weakness. But such a move cannot be ruled out in case of future difficulties.

What is Likely for the Short-Term? One positive result of the recent speculation—and it is too early at the time that this is being written to tell whether or not the gold "bubble" has really burst or just been pricked—is that we have been given sharp warning as to the possible result of our underlying balance of payments difficulties.

The apparent irrationality of the speculative fever must paradoxically force us into more rational actions—

(1) On the U.S. part, to redouble our efforts to redress the payments imbalance.

(2) Our foreign allies must be more than ever reminded that they should and will contribute more to the free world foreign aid effort and remove some of this strain from us. The recent events should, however, also serve to remind us that we cannot depend too much on outside help for our problems, especially from some international bankers who are "profit patriots"—and this is not intended as a criticism of them, but as a realistic fact for us to face.

(3) Finally — and probably most important — the events have placed an unmistakable obligation on the next administration to follow responsible fiscal and monetary policies—in effect, an incontrovertible international discipline on many aspects of our overall economic program.

The recent gold rush has brought these facts home forcefully. Both Presidential aspirants are now committed to maintain the present exchange rate parity of the dollar, at least for some time to come. The fantastic speculative gold price movements of October have undeniably left a bad mark against the dollar. But the activity in London and its unsettling effects should have helped to dispel the notion that our next President—whoever he may be—would favor an immediate devaluation.

In Sum

The fact that the London gold price continued to list at about $37 per ounce during the last week of October was a reminder that the nervousness concerning the Dollar was as yet far from completely stilled and will remain substantial, even if somewhat dormant, until after the election. American economic policy in the future will have to consider and remember the October gold rush in London. END

Prospects In Latin American Markets

(Continued from page 183)

Consideration for the Investor

What do the Central American Common Market and the Montevideo Treaty mean to the American investor? As presently constituted they will have very little effect of any kind, at least for the next few years. Nevertheless their long-term influence will have to be taken into consideration, because economic integration, beset as it is with difficulties and delays, is the wave of the future on the international scene, and can be expected to gather momentum as time passes. **Some already established American enterprises in Latin America will be hurt, undoubtedly, since they depend upon national protection for their profit margins. A hard look should be taken by American industry to see which of their Latin American subsidiaries are presently vulnerable to such withdrawal of protection. In the long-run, however, if the Common Markets are successful, this can have no other effect than to make American investments in Latin America even more profitable to both the investors and the recipients of capital.**

The Latin American Common Market may not become a functioning reality for some time, but the trend is there, and a strong, united Latin America, united by the free interplay of capital and goods among the nations involved, cannot help but constitute a more effective and powerful partner to the other nations of the free world. END

Why Beirut Conference Failed To Solve World Oil Problems

(Continued from page 177)

they can only be applied in a complete seller's market for both oil and tankers. For the last four years this has not been the case by any stretch of the imagination. Hence, prices have in actual practice been fixed by the age-old law of supply and demand, with supply growing steadily at a faster rate than demand. The result

(Please turn to page 204)

(*Continued from page 201*)

has been a buyers' market where anyone trying to sell on the basis of a theoretical and rigid formula would have been underbid by many competitors. Thus, Tariki's price formula is based on an unrealistic assumption and may at best represent the prices the major companies would have *liked* to charge, had they had complete control of the world oil market. Furthermore, any sharp price increase, such as the 53¢ a barrel he suggested, would have been resented by the consuming countries whom Tariki professes to love. In fact, the United Nations Economic Commission for Europe issued a report just about six years ago in which it accused the oil companies of pricing their Middle East oil too high by tying it to the U.S. Gulf Coast price, the highest of any major producing area in the world. Thus, consuming countries were already alarmed in 1953 about the high level of Middle East prices.

Had these prices further increased, instead of decreased, the importing countries would in all likelihood have taken some sort of counter action. For if European consumers would have had to pay 60¢ a barrel more for their oil over these years, they would certainly have looked for alternate fuel sources as well as alternate oil sources at a greater speed. Furthermore, they might well have formed a single consumer bloc to deal with their overseas oil suppliers.

The nucleus for such a bloc was contained in the O.E.E.C. Oil Emergency Committee, formed during the Suez crisis. The power of such a vast consuming area, speaking with a single voice, might well have depressed oil prices much more than the moderate reductions by the oil companies. For even at today's relatively low prices, Middle East oil production is still extremely profitable. In fact, prices could well decline still more without making production commercially unattractive.

Where the Soviet Steps In

But perhaps the most glaring omission in Tariki's thesis concerned Soviet oil exports. With the representative of the USSR oil export trust sitting in the front row of the room, it was astounding that the Arabian oil chief should have ignore the new threat from the Black Sea. In fact, it did not take very long before Comrade Gourov obligingly reminded him of the coming impact of Soviet oil exports on the West, *"In the period 1930-33 Soviet oil exports accounted for 19% of Western Europe's total oil imports. In the four years from 1956 to 1959 it was only 4.4 %. All we want to do therefore is to regain our rightful position among exporting countries—the position which we had during the pre-war years and lost because of war conditions . . ."*

In simple statistics, this would mean quadrupling Soviet oil shipmets to Western Europe within the next few years. And, indeed, such a possibility is not to be disregarded.

One of the Western experts at Beirut projected total Soviet oil exports for 1965 at 700,000 barrels daily, an increase of 133% over the present level. *Italy, one of the Middle East's major customers, is already turning more and more to the Soviet Union for its oil needs.* This shift incidentally, was sharply criticized by the Lebanese delegate who made it quite clear that in his view this was not designed to further Italian-Arab friendship.

Ironically, the Soviet speaker indirectly refuted Tariki's theme that the major international oil companies could set prices at will. After Aramco's vice president had declared forcefully that prices are not set by a formula but are determined in the market place, Gourov interjected, "and the oil companies can do nothing but accept the facts of the market place."

This is quite different from Moscow's usual diatribes about the international oil cartel, robbing the consuming nations by maintaining artificially high prices and the producing nations by not passing a fair share of their "monopoly" profits on to them.

Storm Subsides As Conference Ends

As the conference closed much of the heat of battle seemed to have evaporated. Tariki's $2.7 billion claim was not seriously pressed even by him, and was generally written off as rhetoric by most observers. But the problem of what to do about world oil prices and production remains unsolved of course. Some companies still seem to think it will go away if they just ignore it. They hope that with an improving market, the pressure for prices will slowly move upward again. Until this happens, these companies think, there will be a good many discussions among the producing countries about a world oil commodity agreement. But the difficulties will be such that no workable arrangement will be reached in the foreseeable future. Hence, nothing much needs to be done at the moment, beyond a continuous sincere effort to improve relations between the companies and their host countries in Asia, Africa and Latin America.

The oil countries, on the other hand, see it all quite differently. To them—and particularly to Perez Alfonso and Sheik Tariki, two powerful men who have staked their personal reputation on this proposal—the creation of

an international oil agreement is an absolute necessity. They are working hard on their plan and enlisting the support of other countries, including Iran and perhaps Indonesia. Next January they will have another go at the program and after will make that still another try. At the same time, they are looking for support in the United Nations, whose Commission on International Commodity Trade has been indiretly instrumental in setting up several other raw material commodity agreements on a world-wide basis. In fact, both Iraq's foreign minister and Venezuela's ambassador hinted at such an approach in recent talks before the UN General Assembly.

Of course, the oil countries, too, suffer from a considerable dose of political myopia. Sr. Perez Alfonso, for instance, insists that Soviet oil exports won't ever amount to very much because they need the oil at home for their own economic development. This does not jibe with current Soviet attitudes, either on trade or on domestic consumption.

Hence, what is needed is more realism, politically as well as economically, on the part of everybody—oil companies, producing countries, consuming countries and, last but not least, the U.S. Department of Justice's anti-trust division which could hamstring any concerted action by U.S. companies operating abroad, no matter how desirable. END

Opportunities In Growth Utilities With Yields

(Continued from page 189)

Upper Peninsula and six in the Lower, with a combined population of some 125,000, make up its total market. Principal activities in the Upper Peninsula are iron ore, lumbering, quarrying, dairy products, and manufacture of explosives and women's apparel. In the Lower Peninsula automotive production, farming and resort business are important. Some 46% of revenues are derived from electricity and 54% from natural and manufactured gas. While the company does possess several small hydro plants much of its power requirements are purchased from Indiana & Michigan Electric, a subsidiary of American Electric Power.

Michigan Gas & Electric's record of growth has been unusually good. Revenues have expanded from \$3.0 million in 1950 to over \$8 million currently. Share earnings have increased *each year*, from \$1.83 in 1950 to \$5.61 for the 12 months ended June 30, 1960—an average compounded annual gain of nearly 12%. This is a faster rate of gain than all but a very few of the well known growth utilities have shown; yet Michigan G. & E. has been selling recently at only about 13.8 times recent earnings, as contrasted with price/earnings ratios as high as 20-30 times for larger growth utilities. The company is planning for eventual conversion of manufactured gas to natural gas, a step which should improve profit margins and thus to sustain its remarkable growth record in the future. An increase of natural gas supplies recently obtained will already permit service of 1400 additional space-heating customers in the coming heating season.

One of the earlier utilities to adopt the regular stock dividend idea as a conservation of earnings to cover rapid plant expansion is **Missouri Public Service.** This system, which serves a chiefly rural but increasingly industrialized area centered about Kansas City, in western Missouri, initiated a ½% quarterly stock dividend in 1956 and has maintained it regularly since then. Taken with the cash dividend (72¢) this distribution provides a distinctly generous yield of about 5.6%.

Gross value of Missouri Public Service's plant has increased four-fold in a decade, from \$20 million to \$83 million at the end of 1959. To a minor extent this rapid growth includes the absorption of other properties but primarily, and solely since 1954, it reflects higher consumption within its existing market. The most impressive rate of gain has occurred within the metropolitan Kansas City area, which now contributes 41% of total electric revenues, contrasted with only 30% as recently as 1955. In the entire service area electric revenue increased 9% in dollar

terms in 1959 over 1958, resulting from the addition of 2628 new customers and an increase of 6% in average consumption per existing consumer.

Accelerated Rate of Expansion

This booming demand naturally requires continuing large plant expenditures. A 50,000 KW unit has just been brought into operation at the company's Sibley Generating Station, near Kansas City, and completion of a second unit of like capacity has been rescheduled for 1961 instead of 1962. Eventually this plant will be enlarged to 300,000 KW capacity. The company's total construction budget for 1960 amounted to $9,750,000, providing, besides the Sibley facility, $771,000 for the construction of new transmission lines.

Impressive as the growth of its electrical load has been, gas sales have expanded even more rapidly. In 1950 total gas revenues of $783 thousand amounted to 19½% of electric gross; last year gas contributed 33% as much as electric sales. Actually, development of the company's gas distribution business has been somewhat retarded by its inability to obtain the full quantities desired from its suppliers, Panhandle Eastern Pipe Line and Cities Service Gas, and electric space heating was promoted by low inducement rates to avoid delays in waiting for gas connections. About a year ago, however, gas allocations by Panhandle were substantially increased.

Kansas City's Strategic Location

Kansas City's mid-continental location offers many industrial advantages, which are receiving greater recognition as the population center gradually shifts westward. The State of Missouri carries on an active industrial location program through its own Division of Resources and Development, and sixteen communities in MPS's service territory have formed industrial development corporations of their own. The efforts of these agencies are reinforced by the company's Area Development Department. Eighteen new industries established plants in the company's service territory in 1959 and eight others expanded their existing facilities substantially.

Expansion to serve these enlarged markets has required capital expenditures considerably in excess of depreciation and retained earnings, even with the benefit of the stock dividend. Debt has been substantially increased, and currently new stock is being offered for subscription by present holders, to raise about $4¾ millions. Under these conditions the stock dividend policy has been eminently sensible, although the distribution of 4 payments of ½% every year rather than a single 2% payment might be annoying to some holders. Another feature that makes this company unusual among large utilities is that it comes close to being family-controlled; Chairman R. J. Green, with relatives and associates, owns nearly a third of the common issue. The management has been of such quality, however, as to make participation by outside investors attractive, and external trends affecting the service area are also particularly favorable.

New Jersey Natural Gas now enjoys annual revenues of over $16 million and has doubled its business since 1953. It supplies natural gas to 104 communities with a population of about 577,000 in Cape May, Middlesex, Monmouth, Morris and Ocean Counties, New Jersey. The Cape May area is an important resort section. Portions of the territory are also within commuting distance of New York, Philadelphia, Trenton and Newark, and others are important farm areas. Besides large military establishments such as Fort Dix industrial research organizations and some manufacturing and commercial enterprises are located in the area. Nevertheless, the industrial business is relatively unimportant, accounting for only about 5% of sales. The company buys its gas from Texas Eastern Transmission and Algonquin Gas Transmission, with a smaller amount from South Jersey Gas. High btu oil-gas and LP plants are also available for standby and peak-shaving operation.

Much of the company's rapid growth has been accounted for by increased house-heating sales, and since some 85% of residential customers in the area now use gas heat the growth from this source may taper off somewhat. Load growth from the addition of new customers in the area is also important, however, and about 6000 new customers a year are being added.

The Company has had a remarkable record of uninterrupted gains in earnings per share—from 26¢ in 1953 (adjusted for the 1959 split) to $1.60 in the 12 months ended June 30, 1960. Some of this increase was due to inclusion of tax savings from accelerated depreciation beginning in 1956. Such savings came to 12¢ a share last year.

Cash dividends have increased each year from 46¢ in 1955 to 90¢ currently. In addition, 2% stock dividends have been paid in each of the years 1956-9, and declared again payable November 18 to stock of record October 26. Reflecting the rapid increase in earnings and dividends, the common stock has advanced from a 1953 low of 4¾ to a 1959 high of 26. At the recent over-the-counter price it yields 3.7% based on cash payments, or a total of 5.7% including the stock distribution. END

Looking For A Buying Point In B. F. Goodrich, Johns-Manville, Ingersoll-Rand

(Continued from page 193)

important markets include transportation (automotive, aviation and railroad), water distribution and sewage, fireproof textiles, appliances, and all industrial applications requiring thermal, electrical or acoustical insulation. To mention one specific product only the COBRA composition brake shoe, developed jointly with Westinghouse Air Brake, is enjoying rapidly expanding acceptance on railroad locomotives and cars. Another promising area of development is the former Libbey-Owens-Ford Glass Fiber Co., acquired in 1958.

Solid Value

The company's principal asbestos mine, in Quebec, is being converted to more economical open-pit working, and a second, smaller mine has recently been developed in Ontario. An additional ore body is shortly to be opened in Newfoundland. These properties give Manville something better than one third of the world's asbestos capacity and protect it from raw material price fluctuations.

Earnings for the current year are running below last year's level, in common with most companies at present, and no immediate boost is in sight. Rather, as suggested above, holders of the stock must exhibit patience for several years before expecting renewed earnings growth. Still, the stable $2 dividend is well protected and offers a yield of close to 4%. More significantly, the prevailing price multiple of about 14 times this year's estimated earnings is moderate for an issue of this quality. Here, again, early appreciation is not to be expected but long-term basic value may be regarded as solid.

Universal Investment Characteristics

The three foregoing companies, in the rubber products, machinery and building industries respectively, have relatively little in common, as they must look for future success to entirely different areas of development. Nevertheless, each of them does illustrate the desirability of certain universal investment traits; these include participation in basic industries, diversification, flexibility and, of course, management's competence in meeting the problems that will inevitably arise. These companies are not in an exclusive position and have experienced their share of difficulties. Each of them occupies, however, a sound investment position, and at present price levels makes liberal allowance for remaining uncertainties. Their stocks should be watched cdosely for eventual purchase. END

Where Do We Stand Today?

(Continued from page 170)

were at a seasonally adjusted annual rate of $218 billion, or about 1% above the third quarter of 1959. ● Non-durables were up 3% and durables were down 5% from a year ago.

Various surveys of consumer attitudes and buying plans have noted a hesitancy among consumers, also apparent in their reluctance to add to instalment debts. It is too early to state categorically that consumer expenditures for durables are in a downward swing. If the initially favorable reaction of the buying public to the new 1961 automobiles follows through, the outlook for consumer durables would be materially improved. *Consumer expenditures for services continue to expand. They have moved up steadily from a level of about $65 billion in 1950 to $123 billion in 1959 and to $131 billion in the second quarter of 1960 (seasonally adjusted).*

With respect to over-all prospects for consumer expenditures, it may be predicted that they will remain steady and that the current dip in expenditures for durable goods is not likely to prove to be extended.

The outlook for new capital spending by business is more difficult to forecast than the level of consumer or government expenditures. Business firms can increase or reduce their capital expenditures on relatively short notice, depending on their feeling about the general business outlook. Capital spending in 1960, while down from earlier estimates, is holding at a historically high level—less than 2% below the 1957 peak figure. Such spending is supported by high depreciation charges, strong corporate financial positions, and in some cases, additional financing. The emphasis of most of such programs recently has been on cost reduction, with relatively little pressure for additional production capacity. While it is too early to make firm predictions about the 1961 outlook for business plant and equipment expenditures, the weight of evidence appears to be on the side of somewhat lower rather than higher outlays. **An economist for the National Industrial Conference Board estimates that for 1961, domestic capital investment in plant and equipment may dip about 10% to $33 billion.**

This expectation of a reduction in expenditures stems from the fact that many businesses are currently in a profit squeeze and are inclined to utilize existing equipment more intensively rather than build new facilities. Another element in the picture is the fact that many lines of business are operating below capacity and are presently overexpanded.

With respect to government expenditures, however, there is little doubt that whichever party is elected to office the trend of spending by both Federal and local governmental bodies will be upward. The cold war shows no signs of abating, and our commitments for defense and for aid to allies and to under-developed nations in Africa, Asia and Latin America may be expected to increase during the 1960's. At the same time, states, municipalities and other governmental subdivisions see no diminution in the demand for additional services from a growing population. Thus, both Federal and local governments will be required to spend increasing amounts of money during the 1960's if they are to meet the demands expected to be made on them.

With consumer expenditures on balance trending upward, and with governmental outlays also showing a rising tendency, the net over-all direction of spending is toward higher rather than lower totals. This may well be modified by reduced business plant and equipment expenditures. Such reductions could pro-

vide a dampening influence on the economy of the nation, particularly if the cut-back in capital spending by business proves to be substantial in magnitude.

Let-down From Unrealistic Hope For Age of Minerals

It seems paradoxical that 1960 is going down in economic history as a record year in the matter of gross national product and in many of the generally accepted tests of prosperity, yet it will probably be classed as a year of rolling readjustment or recessionary tendencies. Part of this arises from the exceptionally high hopes which were held out for the year when it started. As the curtain raiser on the "soaring sixties", it was predicted last year that 1960 would prove to be a real "humdinger". Its failure to live up to this advance billing has caused disappointment and increased caution in the business community. In other words, 1960 has been good, but not good enough to fulfill earlier expectations. Why has this happened?

In a speech on September 28, 1960, Secretary of the Treasury, Robert B. Anderson, stated that "considering the fundamental readjustments that have been taking place in the United States economy, it can be said that our enterprise system has once again demonstrated its great underlying strength and resilience."

The "fundamental readjustments" which he referred to, he defined basically as the changes resulting from the elimination from the 1960 economy of both the fear and the fact of inflation. The decline in inflationary expectations developed after the announcement in January 1960 that the $12.4 billion Federal deficit of fiscal year 1959 would be replaced by a surplus in fiscal year 1960. The major impact of this decline in inflationary pressures and expectations was on business spending for inventories. **In the first quarter, businesses were accumulating inventories at the near record annual rate of $11.4 billion. As it became clear that most industrial goods would continue to be readily available at reasonably stable prices, the rate of accumulation of inventories began to decline instead of rising. Thus the annual rate of inventory spending fell by $11 to $12 billion. Mr. Anderson concluded that this sharp decline in inventory spending has been the key fact in our domestic business picture and accounts for the relative stability of industrial production in 1960 despite a substantial expansion in final demand.**

Viewed in the light of Secretary Anderson's reasoning, 1960 has been a good rather than a poor year. Removal of inflationary fears and expectations after almost 20 years of recurrent inflationary pressures would be bound to cause some severe readjustments. If inventories are now trimmed to a point where they are about to be rebuilt, and if the economy can now function on a sound basis, free from fears of shortages and threats of inflationary price increases, the basis is laid for improvement next year on solid ground.

The Part That Political and Other Uncertainties Play

There is much to be said for the foregoing explanation. However, it is unlikely that it provides an answer to all the problems in our economy today. For example, the inventory problem in the steel industry certainly has accounted in large measure for this year's low operating rate in that industry. However, problems in other areas of the economy such as the reduced rate of sales of consumer durables and the existence of over-capacity in several lines of activity cannot be fully explained in terms of the elimination or diminution of the threat of inflation.

In view of the many political uncertainties in the world today and considering the strength of organized labor in the United States, it is doubtful if the danger of inflation has been completely eliminated. Furthermore, competition both internally and internationally has gained in intensity to a degree that the need for increased efficiency in our economy is greater than ever. No longer can we afford wasteful and uneconomic practices or unduly high labor costs when foreign producers in Japan, West Germany and other newly strengthened industrial countries are threatening to take our markets away from us if we fail to meet the competition.

In summary, our economy has continued to operate at a relatively high, though in certain ways, disappointng, level throughout 1960, a difficult year of many readjustments. Prospects currently appear to favor a gradual improvement once inventory cutting is replaced by inventory replacement. However, so many crosscurrents exist in our economic structure that no simple characterization such as a phase of the business cycle can describe the present situation adequately. **Perhaps the term rolling readjustment most nearly explains the present complex of both favorable and unfavorable factors which are operating in our economy today. But even this term has become somewhat overworked and merely represents a facile catch-all expression which only partly explains a complicated economic condition.** END

A Sound Approach To 1960 Third Quarter Reports

(Continued from page 174)

been among the hardest hit—enough so even to warrant concern about some dividends. **Flintkote,** which earned only 87¢ in the first half compared with $1.21 in 1959, fell further behind in the third quarter. Net equalled only 86¢ compared with a $1.02 in this normally good period. Consequently, a repetition of last year's $1.75 total dividend payout appears in doubt.

National Gypsum's sales and earnings also dipped, but little reason to fear for the dividend exists here. In the third period net came only to $1.25 against $1.56, but the $3.00 per share total already earned in the first nine months provides comfortable coverage for the $2.00 dividend.

Shareholders of other building material companies, however, would do well to scrutinize results carefully. As more of these reports appear, further attention will be devoted to them in a subsequent installment of this article.

Earnings and Dividend Outlook

So far only a small fraction of the third quarter reports have been issued. Yet it is apparent that the pattern already observed will continue, as the remaining earnings statements come out.

For investors a few basic points should be re-emphasized. The stock market is still high by most standards, and hence may be considered more vulnerable to decline than the general economy. Nevertheless, the basic strength of the economy mitigates against unwise disposal of sound companies with strong earnings and dividend records. True, it is probable that earnings will continue to lag well into 1961, but in the case of major companies high cash earnings and adequate cash reserves should sustain dividend payments. Exceptions may be found, of course; Bethlehem Steel's earnings coverage of its dividend is so narrow that the later could be conceivably cut, but this situation is certainly not typical.

Investors in secondary companies, however, have greater grounds for apprehension. Already many secondary companies have cut or omitted dividends this year, and it is to be expected that more will follow before the year-end.

Hence, the investor should use his appraisal of current earnings to determine whether he should retain his commitment or switch into broader-based major companies.

Cost cutting is already proceeding at breakneck pace throughout American industry, but it's the bigger and more efficient companies who will get the fastest results from paring fat. Moreover, the cutting of costs now will lead to exceptionally sharp earnings advances when the general business picture moves off its current plateau and again begins to climb.

In Part II of this report, which will appear in the next issue of the Magazine of Wall Street, we will again point up the differences between the earnings performance of the major and minor companies, as an aid to selection by readers. END

Tobaccos Hold Their Own

(Continued from page 186)

holding the industry lead with about 31% of the market. In today's far more brand-crowded market Reynolds has captured the lead, taking about 30% against American Tobacco's present 25%. Reynolds has achieved this position with the top-selling straight cigarette "Camel", the top-selling filter "Winston", and the sales-leading menthol "Winston".

Stockholders have consequently enjoyed healthy earning, market price and dividend increases. The dividend has, in fact, been increased seven times in as many years. Earnings, adjusted to reflect stock splits, have risen from an average of $1.67 in the 1947-1949 period to $4.45 per share in 1959 and an estimated $5.00 for 1960. Price of the stock has climbed to a recent 83 from a mean price of about 19 in the 1947-1949 period.

The trend of sales and earnings was not interrupted, for the first nine months of 1960, during which sales were up 11% and earnings 13%, better than for the other major companies in the group.

On its record Reynolds can be clearly considered to be in the "growth" category. Unless the management looses its touch, an unlikely eventuality, further consistent growth can be expected from the merchandising ability already developed. To some extent the quality status of the company has been endorsed by its "arrival" as an investment stock, when it recently showed up for the first time (in 49th place) in the list of the fifty largest holdings of the mutual fund companies.

American Tobacco Company, long the leader in the industry, has only recently been displaced by Reynolds. Both companies do run close in volume and American's "Pall Mall" brand is the largest non-filtered king size cigarette. Some industry statisticians even rank "Pall Mall" higher in sales than "Camel" but closely guarded official figures are not available to settle the point.

Conservatively managed and soundly financed, American was a little slow in bringing out a successful filter brand. Its "Hit Parade" was a dud but "Tareton", equipped with a dual filter, has made good progress in supplementing "Pall Mall" and long-established "Lucky Strike". Recently split two for one, the stock is expected to show 1960 earnings of about $4.85 per share, up from $4.62, despite a no-gain performance in the first six months, when earnings were held down by adjustments in the company's employee profit sharing and retirement plans. While no announcement has so far been made, the dividend, which was already increased following the split, may be supplemented with a year end extra, as it has in the past. With such an extra the distribution should be $2.80 per share.

Liggett & Myers Tobacco, the third ranking company has been losing ground with its traditional "Chesterfield", while its new "Duke" does not look like the hoped-for spur to sales. "L & M" filters have also been disappointing as a regular size, but the king-sized version has been steadying. The noticeable trend toward king-sized regular cigarettes may benefit "Chesterfield" kings, and some improvement here has already been noted. Reflecting the trend in these brands and a drop in exports, sales in the first nine months declined about 3%. Net income, off about 10%, was also affected adversely by advertising expenses and the recent lawsuit involving cancer claims, which the company won. Liggett & Myers was formerly one of the largest exporters of cigarettes and its decline in this area reflects some of the problems in the Philippines, Cuba, and Venezuela already cited.

Earnings for 1960 will probably be about $6.50 per share, down from the $7.28 per share of last year. The present $5.00 dividend is reasonably safe.

P. Lorillard, the fourth largest of the companies, is celebrating its 200th anniversary but it is not likely to get such a bountiful birthday gift as in 1957, when its "Kent" received a very substantial boost from an endorsement in a national magazine. Exploiting this lead in the high filtration area, "Kent" soon became

the target of intense competition on the part of competing brands. Although its lead has been cut, "Kent", as well as "Spring" and "Newport", has still been making advances, but sales of "Old Gold" are down.

Reflecting these trends, sales in the first nine months were off about 3% and net income down about 8%. Earnings for 1960 probably will be close to $4.00 per share, down somewhat from the $4.20 per share in 1959. The dividend rate was increased to $0.55 per quarter earlier this year, incorporating the extra payment that had been made last year.

Philip Morris, the fifth of the "big five", has turned in a very creditable performance with brands that were not in existence five years ago. "Marlboro", "Parliament", "Benson & Hedges" and "Alpine" have more than made up for the waning popularity of "Philip Morris". An added attraction has been the company's move toward diversification. Begun in 1957, this program includes the acquisition of Milprint in the packaging field, a chemical and adhesives company, and most recently A.S.R. Products. A.S.R (the old American Safety Razor Company) has added a new line of razor blades and other consumer products that are distributed through the same channels.

Aided by good merchandizing and the increments from its diversification program, Philip Morris also possesses good growth promise. The dividend rate, recently raised to 90¢ per share quarterly, could be a candidate for further increase as diversification benefits are realized. Its increasing attention to foreign markets also enhances its outlook.

In the first half of 1960 sales were up 2%, but more important earnings rose 7½%, putting the company along with Reynolds, in an exclusive category. For 1960 as a whole, earnings will probably reach $5.30 per share, up from $5.01 in 1959. The introduction of 'Commander" will not have an adverse effect as its promotion expense came from already budgeted funds.

Cigar Companies

During the middle 1950's the cigar makers began to check the erosion of their business by drastic changes including intensification of their advertising and promotion techniques. Instead of trying to woo smokers from one brand to another, they concentrated upon an effort to get young people to accept cigar smoking before they were lost to cigarettes. One avenue of approach was the cigarillo, a low-priced attempt to capture the younger market. The effectiveness of these steps has been attested by the reversal of the long downward trend in tax-paid withdrawals of cigars. Last year the industry sold about 6.5 billion cigars, a gain of about 7% over the 1958 level. In the first part of 1960 month by month gains were again being made and the forecast is for an additional 4 to 4½% gain for the year as a whole. Last year's figures were somewhat inflated by withdrawals to anticipate the increase in tax levies in a number of important states.

The lower priced group of cigars is growing faster than the more expensive; this trend apparently reflects the success of the advertising approach of the industry. Since little Havana leaf is used in domestic cigar manufacture, the Cuban difficulties represent no great threat to the companies.

Probably the greatest influence on the industry has been the introduction of Homogenized Tobacco Leaf by General Cigar and its rapid acceptance throughout the domestic industry. This is a process for the pulverizing of the leaf and then rerolling it into a uniform sheet. Its advantages include uniformity of leaf and elimination of much hand labor, allowing further mechanization in the cigar-making process. Further improvements in the HTL technique now being tried will permit its use for the outer wrapper as well as in the filler. Some cigar men say the process even makes the cigar smoke better, probably because of the uniformity. This development has already permitted improvement in margins and lowered warehousing costs. Since more machinery is used and handoperations reduced, many of the smaller cigar makers have been dropping out, leaving the larger more strongly financed companies in better positions.

General Cigar is probably the leader and is represented by "White Owl" and "Robert Burns". Developer of the Homogonized Tobacco Leaf for binder, it receives royalties from others in the cigar field for the use of this process. Since 1954 sales have increased about 80% and earnings have doubled to $1.87 in 1959 (excluding non-recurring income). While sales slipped slightly in the first half of 1960, reflecting the advance buying last year to beat the imposition of the cigar tax in New York, net income in the period was up 13%. Earnings for the full year 1960 are expected to reach about $2.25 per share. Improvements in the cigar trade, royalty income and potentials in the use of HTL for cigar wrapper improve the outlook of the company as a candidate for appreciation.

Consolidated Cigar, the largest manufacturer, is represented in the field by "Dutch Masters," "El Producto," "Muriel" and others. Earnings per share ought to reach the $3.00 level this year, up from $2.74 last year. In first half of 1960 sales were up 14% and net income, due to wider profit margins, was 12% higher. with such recent success in widening margins coupled with its strong fiscal position, Consolidated represents a good long term holding.

Bayuk Cigar has a strong position in medium and low priced cigars, including "Phillies,"

(Please turn to page 212)

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"Webster" and "John Ruskin" among others. Sales and net income both rose significantly last year as a result of its saturation type advertising campaigns; sales were up about 30%, while net income per share jumped to $2.84 from $1.53.

In the first half of 1960 sales dropped about 3% while net income, as the result of higher depreciation and selling and administrative costs, was down about 18% to $1.09 per share. While the expansion of the company has been rapid recently, some levelling off is probable this year. Earnings should hold up reasonably well and the price of the stock seems to reflect the recent mild set-back adequately.

Snuff Companies

The snuff and smoking tobacco companies are **U.S. Tobacco, American Snuff** and **G. W. Helme**, ranked in that order. Sales of snuff turned up in May but this probably has little long range significance. While U.S. Tobacco got some market attention a year or so ago on the basis of some favorable publicity for its denicotinized cigarette "Sano," its volume remains small. Each of these companies has begun to diversify in order to try to improve its prospects. Snuff and smoking tobacco uses have become relatively stable so that their best bet has been to move into other lines. U.S. Tobacco acquired Circus Foods, Tucker-sharpe Pen and Lummis, a nut canner. Sales will be up, but net is unlikely to rise much.

American Snuff has diversified into the insecticide field and prospects favor some improvement over the $4.96 per share of last year. The common stock is primarily of interest to those looking for steady income.

G. W. Helme acquired a cookie and pretzel baker, and later a nut packer, to complement its snuff business. Earnings probably will decline slightly from last year's $2.55 because of lower margins, but the shares are quite suitable for income objectives. END

For Profit and Income

(Continued from page 195)

stand-out performers are mainly beer stocks and soft drinks, food issues, gold mining and tobaccos. A few of the weakest-looking groups are containers, coppers, chemicals, electrical equipment and electronics, metal fabricating, aluminum and tires. Aside from the stronger groups cited, others which have made a relatively good showing during 1960 to date are confectionery, finance and small-loan companies, motion pictures, electric utilities, natural gas, shoes and soaps. Compared with 1959, the "climate" has changed rather drastically. Most investment-grade income stocks have given their holders no cause for worry. Most cyclical-type stocks are down sharply. Most low-priced "cats and dogs" have fallen out of bed —without yet hitting the floor.

Boat Business

The boating boom is not "sunk" but is running into more trouble, with output up and demand faltering. There is some backing up of inventories in boat builders' hands, some price cutting. The biggest maker is Chris-Craft Corp., merged into Nafi Corp. earlier this year. Now at 29½, Nafi stock is off about 56% from its 1960 high. The once "glamorous" stock of Outboard Marine, is now around 20, off nearly 50% from its 1959 top. Neither issue is yet cheap.

Strong Stocks

At this writing strong stocks are very far from numerous. However, the following issues—some at new highs, others little under previous best levels—are making a good showing: American Tobacco, Corn Products, Campbell Soup, Coca-Cola, Commercial Credit, Crown Cork & Seal, Falstalff Brewing, Columbus & Southern Ohio Electric, Heinz, Western Pacific, Lone Star Gas, Melville Shoe, Phillips Petroleum.

Dividend Boosts

Dividend increases or extras between now and the year end will be fewer than a year ago, but there will be some. Candidates for liberalized payments include: American Electric Power, Bank of New York, Cleveland Electric, Cluett, Peabody; Commercial Credit, Lone Star Gas, General Motors, Pacific Gas & Electric, and Texas Utilities. END

The Trend of Events

(Continued from page 163)

garding the secret survey on U. S. prestige which had shifted considerably since Khrushchev expressed his true self at the U. N. And for the Times to seriously use the argument that the U. S. was weaker than Russia militarily on the ground that Russia would be stronger in ten years, was pure and simple hogwash, for anything could happen in 1970—ten years from now. This was a distorted comment unworthy of that great organization.

On the matter of the furore in the gold market in London, the Times must have been aware of the fact that it came about as a result of the uneasiness felt abroad over the Democratic spendthrift platform, and the fact that the day before the betting in Zurich ran 11 to 1 in favor of Kennedy, scaring the financial community abroad almost to death, as clearly shown in the first hand story which follows this editorial.

The state of the world today calls for fiscal stability and the Times knows it. Do they really believe that this is the kind of administration they will get from Senator Kennedy as President? They hope so. I doubt it.

It is clear that in the choice between two men, we must choose Mr. Nixon as the one best qualified by his sincerity, his commonsense judgment, and the fact that he is spurred by a desire to serve the American people in these most critical times in our history, while in running for the presidency, Mr. Kennedy seems merely to be seeking to satisfy an overweening ambition.

It would be too bad if the Times has made the same mistake regarding the presidential candidates, that they did when Herbert Matthews supported Castro's revolution in Cuba in their pages. END

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